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**SOCIAL DIALOGUE
AND THE EXPANDING WORLD**

**The decade of tripartism in Hungary
and in Central and Eastern Europe 1988-99**

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Chapter I

TRIPARTISM: ITS BIRTH AND MISSION IN CENTRAL AND EASTERN EUROPE

In Central and Eastern Europe, in the context of fundamental political and economic changes starting at the end of the 1980s, national tripartite institutions appeared on the scene and negotiations and consultations began between national governments, trade union confederations and employers' associations.

This process started in Hungary, where the National Council for the Reconciliation of Interests¹ was established in 1988 by the transitional Nemeth Government. The example was followed after the “velvet” revolution by Czechoslovakia, where Councils of Economic and Social Agreement were set up on the level of both the federation and the two republics (1990). Similar institutions appeared in Bulgaria (1990) and in several other countries. In Poland it was as late as 1992 that negotiations were started about a tripartite State Enterprise Pact, which led to the institutionalisation of contacts between the unions, employers and the government.

The questions – to which the present book tries to find the answers – are: what was (is) the role of tripartite practices in the political and economic transformation of Central and Eastern Europe? What were (are) the political and economic opportunities and constraints which contributed to their birth and determine their operation? What were (are) their major achievements and shortcomings? What major difficulties do (did) they face and how could (or could not) they be overcome?

The analysis focuses on Hungary's tripartism in the period 1988-99. Its more than ten years history may however have lessons to learn for academicians and practitioners all over the region and maybe outside of it too.

¹ In Hungarian political and labour relations terminology tripartism is referred to as tripartite interest reconciliation. The concept of interest reconciliation has its roots in social/labour relations research and theory of the 1970s and 1980s. It was used as an euphemism to describe such processes as were ignored, denied or looked upon as undesirable and not tolerated by the then official political ideology, such as conflicts, campaigning, bargaining etc. The social researchers who “invented” it – including the author of the present book – used it for the description of primarily enterprise level processes, such as informal go-slows and work stoppages to achieve higher earnings. See e.g. Héthy, L. – Makó, Cs.: *Munkásmagatartások és a gazdasági szervezet*. Akadémiai Kiadó, Budapest, 1972. (In English: *Patterns of Workers' Behaviour and the Business Enterprise*. Institute of Sociology and Institute of Labour Research. Budapest, 1989. 213. p.) and Héthy, L. – Makó, Cs.: *Munkások, érdekek, érdekegyeztetés*. (Workers, Interests, Interest Reconciliation.) Gondolat Kiadó, Budapest, 1978. The term “interest reconciliation”, although not a coinage which enhances the transparency or beauty of labour relations terminology, has proved extremely infectious.

1. What is tripartism?

Industrialized market economies do not have one single uniform model of labour relations: there exist bipartite and tripartite models.

Although there is no sharp dividing line between bipartism and tripartism, these two models have somewhat differing approaches as to how to maintain the cooperation of labour and capital. While the first one – as in Britain and in the United States – is limited to the relationship of workers (trade unions) and employers (employers' associations), the second one – prevailing in most European countries – is characterized by the state's – government's – direct presence in contacts between unions and employers. The state's intervention is aimed at orienting these relations in predetermined directions by means of high-level tripartite – institutionalised or non-institutionalised – negotiations and consultations.

The bipartite and tripartite models of labour relations, as we see them, are not so much alternative as complementary. The existence of tripartism presupposes that of strong bipartism. The foundation on which successful and efficient national level tripartism (or interest reconciliation) can be based is provided by developed enterprise and sector (branch) level labour relations, including collective bargaining and agreements, as well as by strong trade unions and employers' organizations.

Tripartism, in its developed and institutionalised forms, is labelled “neo-corporatism” in some of the literature. Others refrain from this term or reject it, as the ideology of corporatism has a long and not too respectable history – it was associated with the totalitarian political systems² – despite the fact that today's “neo-corporatism” has nothing to do with totalitarianism, being the product of pluralist democracies, such as Germany, Austria, Sweden or Belgium.³ For similar reasons we do not use it in the present book either.

We will only refer to it on its occasional appearances in the political and ideological debates about tripartism in Central and Eastern Europe.

In Hungary in 1994, when the Socialist-Liberal Horn Government initiated a long-term and general Social and Economic Agreement (to be discussed later on), the minor liberal coalition party, the Alliance of Free Democrats (SZDSZ), supported this initiative, while formulating its reservations as to the “dangers of corporatism” involved in it.

Similarly in 1999, when the Conservative Orbán Government reshaped the tripartite structures and reduced their role, it relied on the argument that it had no intention of maintaining “corporatist” structures.

One should note that tripartite structures in Central and Eastern Europe are based in general on the internationally accepted principles of freedom of association and bargaining, and have very little if anything to do with this ill-famed corporatism; and the vast majority of politicians at least in Hungary have no knowledge whatsoever of what corporatism meant in the totalitarian regimes, e.g. in fascist Italy before World War II.

² The essence of corporatism is the close cooperation of the state – government – and the trade unions and employers' associations depending on it and exercising together dictatorial influence over legislation and other elected bodies.

³ For the concept of neo-corporatism, see e.g.: Cawson, A.: Introduction. In: *Organized Interests and the State*. (Ed. A. Cawson), Sage Series on Neo-Corporatism. Sage Publications. London, 1985. or Salamon, M.: *Industrial Relations Theory and Practice*. Prentice Hall. New York, 1987.

2. The political and economic stage

Tripartism – this special model of labour relations, i.e. the institutionalised relationship among the unions, employers and the state – seems to be dependent on general political and economic processes.

In the Central and Eastern European region the goals of the political and economic transformation which started in 1989-90 and accelerated later, were identical in the individual countries: pluralist parliamentary democracy and market economy based on private ownership. The goals have been approached however via differing paths in the various countries, due to their differing inheritance, traditions and conditions.

While in Czechoslovakia, in the “velvet” revolution of 1989, people took to the streets to overthrow the previous Communist regime, Poland’s gradual transition in 1989-90 was based on the negotiated settlement achieved between Solidarity and the Jaruzelski regime, in Hungary it was realized via “electoral competition” in 1990 as a result of a similar agreement negotiated in the National Roundtable Talks in 1989, while in Bulgaria the Socialists – ex-Communists – remained in power until as late as the end of 1991.

Organized opposition, drawing on considerable public support, existed only in Poland – Solidarity being established around 1980 – while the new political forces in the rest of these countries tried to organize themselves and to build up their public support – with more or less success – just before and more frequently after getting into power.

In the economy, the new freely elected governments were faced with the double tasks of economic transformation and macro-economic stabilisation at the same time in most of the Central and Eastern European countries. Nevertheless their economic – and social – programmes were conceived under differing philosophies, and their policies followed differing paths. The two extremes were as follows:

1. In Poland the Conservative Mazowiecki Government and its Finance Minister Balczerowicz started to implement an economic programme in 1990 which became widely known as “shock-therapy”: it promised quick improvement of conditions, rapid transformation and stabilisation, in exchange for the heavy material burdens imposed on the population.
2. In Hungary the emphasis was laid on “gradual reform” – both by the Conservative Antall Government (1990-94) and its predecessor the transition Németh Government – and it was envisaged that the population’s increasing material burdens would be eased by a strong “social safety net”, taking care of the victims of economic processes.

The first approach was based on a neo-liberal philosophy, while the second was a reflection of that of the social market economy.

In Czechoslovakia, although the 1990 economic programme was conceived under the decisive influence of neo-liberal economists including the then Finance Minister Klaus, the general strategy for transformation – taking into account its prospectus for social transformation – came closer to the Hungarian “gradual reforms” than to the Polish “shock-therapy”.⁴

⁴ Musil, J.: New social contracts. Responses of the state and the social partners to the challenges of restructuring and privatization. Labor and Society, Geneva, 1991, Vol. 16. No 4.

After they started, these programmes – based on clear specific philosophies – and their practical implementation were subject to several changes and became more difficult to distinguish.

In Hungary in 1995 it was the Horn Government (1994-98), dominated by the Socialists, which had to resort to the, till then, most radical macro-economic stabilisation since the political change in 1989-90 – following in a sense the Polish “shock-therapy” in its measures. It will be remembered in history as the “Bokros-package”, after the then Finance Minister L. Bokros. These measures, while laying the foundation for sustainable economic growth, resulted in an almost 20% drop in real earnings in 1995-96.

The choice of economic programmes by the governments of individual countries was determined not so much by abstract political philosophies of governance, but by the gravity of the economic problems they faced and by the public support they had.

It was both the grave situation of the Polish economy and the strong public support the government had at that time, which resulted in the implementation of the Balczerowicz programme in 1990. At the same time in Hungary in the early 1990s the economic problems were less pressing and the government’s public support was much too weak to risk the launching of a similar programme. Both of these conditions prevailed, however, for the Horn Government by the end of 1994: the balance of the economy became critical and the Socialist-Liberal government felt enough confidence in itself and its public support to embark on a macro-economic stabilisation programme.

It was a general feature of transformation in most countries, including Hungary, Poland, Bulgaria etc., that most of the institutions and actors of the previous labour relations system, including the trade unions, remained in place, with the exception of Czechoslovakia, where they were swept away by events, which included the dissolution of the old trade unions and the organisation of new ones. As a result, the transformation of the labour relations system was gradual in most countries – retaining strong continuity with the past – while in Czechoslovakia the earlier system was eliminated and a new scenario unfolded.

3. A tool for alleviating tensions and solving conflicts

What motivated the governments, trade unions and employers of the Central and Eastern European region in the early 1990s to establish national tripartite structures and to engage in negotiations to achieve agreements?

Tripartite practices, at least in the period of transformation, have been justified by strong practical – rather than philosophical – arguments:

It was thought that tripartism – or, in a wider sense, social dialogue – could have an important role in the maintenance of social and industrial peace, in strengthening cooperation between the actors of labour relations and within society in general, as illustrated by the post World War II history of several countries, including Germany, Austria, Sweden, Italy etc. It did make its contribution to smooth political and economic transformation too – as shown by the transition and the Moncloa pacts in Spain.

It was at the peak of its career in the 1970s in the period of the “welfare state” and the flourishing of Social Democratic governments in Europe. After that experts were likely to refer to its decline.⁵

Nonetheless, it seems to have regained its strength in the period leading up to our day, as once again most European countries are governed by Socialists and Social Democrats. “Corporative governance”, as referred to by the ILO, has proved to be very successful in reducing unemployment and raising employment in the small countries of the European Union – Austria, Denmark, Ireland and the Netherlands. Its role was reaffirmed also at the level of the European Union after the Maastricht Treaty, as the broader category of social dialogue certainly includes tripartite features too.

In Central Eastern Europe, while the much debated economic programmes in several countries proved to be successful and beneficial in the longer term – in restoring the balances of the national economies, restarting economic growth and decreasing inflation – they resulted in transitory decline in GDP, industrial production and productivity, drops in real earnings and standards of living, and in a rapid growth of unemployment and poverty, while the growth rate of consumer prices remained in double figures. This situation brought the danger of increasing social tensions, even – in the worst case – the risk of “social explosion” too.⁶

The major argument in favour of tripartism for the governments, trade unions and employers of Central and Eastern Europe was its promise that it could help, via negotiations and agreements between those primarily concerned, the alleviation of social tensions and the prevention and – if they still occurred – the peaceful solution of conflicts. It offered an opportunity for the governments to explore the possible consequences – social reactions – to their envisaged measures and to share responsibility for these measures with the representatives of the workers and of the employers.

Péter Medgyessy, then Hungary’s deputy prime minister, put forward the following argument in favour of the establishment of institutionalised tripartism (interest reconciliation) in Hungary in 1988: “The government has not been and will not be in a position to evade conflicts, resulting from those measures which are aimed at the solution of problems accumulated in the course of the past decades. These are part of our present day reality. What we should do is to make use of interest reconciliation, to base our decision-making on the consideration of the viewpoints of all those concerned. It has happened that the government was left on its own to take its decisions and sharply criticised. In the future we have to prevent similar situations where the government is isolated, as it is in the public interest that the country have not only responsible government, but one which is in a position to take action and is able to act in difficult situations... Today the government can achieve this position, through involving the people in the preparation of decisions, sharing its information and concerns and discussing its envisaged measures with them, making use of their comments. It was based on this approach that the government decided to establish the new institution of interest reconciliation – the National Council for the Reconciliation of Interests.”⁷

⁵ See e.g.: Streeck, W.: Industrial relations in a changing Western Europe. 3rd European Regional Congress of IIRA (International Industrial Relations Association), Bari-Naples, 23-26 Sept. 1991.

⁶ Héthy, L.: Towards social peace or explosion? Challenges for labour relations in Central and Eastern Europe. Labour and Society. Geneva. 1991, Vol. 16. No 4.

⁷ Interview with P. Medgyessy. Magyar Hírlap, Budapest, 4th October 1988.

4. The source of mutual legitimization

Tripartism offered a mutual reinforcement of the legitimacy of, and support for, all of its participants.

In the emerging parliamentary democracies and market economies the new economic and political – as well as labour relations – actors were faced with chronic deficits of legitimacy and/or support.

While the new, freely elected governments were legitimate beyond any doubt, their initial strong public support started to erode quickly, when their measures to promote “reforms” or transformation and to ensure economic stability were put in place.

On the other hand, labour relations actors – unions and employers' associations which survived the political change – had to “prove” their legitimacy and their membership or general social support.

In this context, the relationship of the new governments and the (mostly old) trade unions was especially interesting.

Firstly, the trade unions had as members those masses of workers – wage-earners – who carried the major burdens of both economic transformation and stabilisation and, after voting the governments into office, became disillusioned with their policies.

Secondly, the trade unions retained their character as mass organisations, having usually several times more members than the new political parties, which – unlike the Communist mass parties of the former regime – functioned with a couple of thousand members.

Thirdly, the Conservative governments in power often looked upon the trade unions as suspicious ex-Communist elements, regardless of the existence or absence of their actual political affiliations.

In this context, tripartite practices offered a mutually advantageous “deal” for their participants.

In their framework the legitimate government accepted its partners – unions and employers – as legitimate, while the social partners made it possible for the government, if not to increase its public support, at least to refer to it.

The trade union picture in the region was very varied.

On the one hand, new alternative trade unions came into existence in most countries before or after the political change. They were organised on the model of their prototype, the Polish Solidarity. Examples were the alternative trade unions in Hungary, which were later united in the Democratic League of Independent Trade Unions – “the League” as they are called – and the National Association of Workers Councils (MOSZ), Podkrepa CL (Confederation of Labour) in Bulgaria, etc. It is an interesting question, worthy of further analysis by researchers of labour relations, why these new organisations – with the exception of Polish Solidarity – could not gather strength and take, despite their ambitions in this direction, the place of the old unions.

On the other hand, the old trade unions survived in all the countries except Czechoslovakia and Eastern Germany⁸; they redefined their functions, putting the representation of workers' interests at the top of their agenda, declared their independence of the then still existing Communist parties, decentralised and democratised their internal structures and often became divided themselves in the fresh atmosphere of freedom of association, in the spirit of trade union pluralism.

These complex developments led – with the exception of Czechoslovakia and Eastern Germany once again – to rather complex situations.

In Hungary, seven trade union confederations were established, out of which six survived and constituted the workers' negotiating group in the tripartite Interest Reconciliation Council in the 1990s. In Poland workers' representation was dominated by the (very much divided) NSZZ Solidarity and the traditional OPZZ (Polish Trade Union Alliance). In Bulgaria the trade union scene was very similar, the new alternative Podkrepa CL and the traditional KNSB (Confederation of Independent Trade Unions of Bulgaria) being present, and the latter holding a considerably stronger position. Romanian unions are highly pluralized too, with four national confederations currently dominating workers' representation etc.

The joint presence of new and old trade unions unfortunately entailed, beyond normal pluralism, division too. In Poland NSZZ Solidarity and OPZZ did not talk to each other for a long time – and do not talk too much today either. In Hungary contacts between the new League and Workers' Councils (MOSZ) on one hand and the National Confederation of Hungarian Trade Unions (MSZOSZ) on the other were seriously burdened by their sharp confrontations in 1990-92.

The debates among the unions were focused on legitimacy and representativeness and beyond these issues there loomed the thorny problem of the redistribution of trade unions' assets, which remained unsolved for several years, except in Czechoslovakia where it was settled right away.

The employers' associations – as privatisation, the break-up of the large socialist enterprises, the penetration of foreign direct investment as well as the development of SMEs fundamentally transformed the spectrum of employers – were mostly at the stage of self-organisation, of trying to find a place for themselves, in a process of self-definition and self-identification which has not been completed to this day.

5. “Corporatist” traditions and international influence

In Central and Eastern Europe, “corporatist” negotiations and cooperation between the past governments and the trade unions – both of them dependent on the ruling Communist parties – had long traditions. In some countries Chambers of Commerce or of Economy,⁹ looked upon as employers' associations, were also part of such practices, so that tripartite cooperation after the political change – when unions and employers appeared as independent actors on the

⁸ In Eastern Germany the trade unions were simply overtaken by the German DGB.

⁹ The Chambers of Commerce or Economy were state agencies for promoting the activities of socialist enterprises primarily in the field of international trade. In the ILO they assumed the role of employers' associations, although IOE (the International Organization of Employers) never accepted them as members. It was as late as 1991 that the first Central and Eastern European employers' associations could join IOE, namely the Polish Employers' Confederation and VOSZ (National Association of Entrepreneurs) from Hungary.

scene – was not a novelty for them. There was a direct path from cooperation under political and ideological constraints to cooperation dictated by the free will of the parties.

In Hungary the institution for such cooperation was the regular meetings between the government and the monolithic trade union confederation (SZOT, the National Council of Trade Unions).

International organisations having an increasing role and influence in the region were also committed to the development of tripartite practices: from the International Labour Organization (ILO) to the World Bank and the International Monetary Fund as well as the European Community — for differing considerations.¹⁰

In case of the ILO such a commitment was self-evident, as the international organisation has a tripartite structure itself, the trade unions and employers being also its constituents. The other international organisations were most probably concerned by the social tensions generated by economic transformation and stabilisation, which could have endangered the economic achievements, and sought ways and means – like the national governments – for their alleviation.

6. Differing national approaches

The impact of the above factors was felt in differing ways in the individual countries of the region.

In Hungary the Conservative Antall Government (1990-94) found itself faced with the National Interest Reconciliation Council as a part of its legacy from the transitional Nemeth Government. It had to decide whether to keep it and confirm it or to limit its authority or even to eliminate it.¹¹

The Antall Government, after some hesitation, decided to revive tripartite practices in Summer 1990, in such a way that

- a) it invited all of the then existing trade union confederations and employers' associations to the workers' and employers' negotiating groups respectively of the Interest Reconciliation Council.¹² In this way seven trade union confederations and nine employers' associations joined the tripartite negotiating table.

¹⁰ This process was – directly or indirectly – promoted by a number of international programs in the early 1990s. In Hungary the World Bank's Human Resources Development Program (1991-95) included, among other measures, the establishment of a network of regional retraining centres, in the direction of which the National Training Council – a committee of the tripartite Interest Reconciliation Council – as well as the similarly tripartite county labour councils were given a role. The European Community's PHARE program provided support for the development of social dialogue in Hungary, for the strengthening of the organisational structure and information base of the Interest Reconciliation Council. The ILO's several technical cooperation projects in Hungary, in Poland and in other countries were directly aimed at the promotion of tripartism in the region. One of the most recent such exercises took place in Albania (1996-97), with the participation of the author.

¹¹ For the political context in which the Antall Government took its decision, see: Héthy, L.: Political Change and the Transformation of Industrial Relations in Hungary. International Industrial Relations Association (IIRA), 9th World Congress, Sydney. 1992. Proceedings, Vol. No 4. 58-67. P.

¹² The name of the tripartite body was changed from National Council for the Reconciliation of Interests to Interest Reconciliation Council. The reason for this change is unknown to the author.

(When established by the Nemeth Government in 1988 the workers' representation was monopolized by SZOT, the National Council of Hungarian Trade Unions, and that of the employers was dominated by the Chamber of Commerce.)

b) it reaffirmed the IRC's organisational structure.

It was in 1990 that the specialised committees of the IRC were convened, including its Labour Market Committee which assumed important decision-making functions, on the basis of the Employment Act (1991), in the control of the Employment Fund; and that the establishment of the regional institutions of tripartism – having a related role in the distribution of the employment budget – also started.

A tripartite secretariat was set up too to assist the activities of IRC.

c) by the adoption of the Employment Act (1991) and the Labour Code (1992) certain legal foundations for tripartite practices were also created.

After 1990, as result of incremental growth a whole system of tripartite institutions developed in Hungary, to be discussed in more detail in the following chapter.

In Czechoslovakia, the idea of institutionalised tripartism was conceived in the Social Democrat strands of the ruling coalition of 1990-92, when the brand new trade unions of the newly established political system were confronted with its brand new government and parliament in Autumn 1990.

In Poland developments were determined by the fact that Solidarity – the political movement – “occupied” both government and parliament in 1989-90, while at the same time it remained – beside OPZZ – one of the two big trade union confederations. In this context tripartism did not seem to offer any benefits for the Polish government – although the idea of a social pact was raised – and was not established, unlike Hungary, Czechoslovakia and several other countries. Its possibility emerged again as late as 1992, after Solidarity had disintegrated and right wing coalitions had taken power.¹³

The European Community (European Union) had a role already in the creation of tripartism in Central and Eastern Europe and – as the accession of several countries of the region is on the agenda – had become a decisive factor in its existence by the end of the 1990s, as “social dialogue” between governments, trade unions, employers and other interest groups is expected of its members and likewise of applicants.

7. Functions and activities

Opinions about the role and importance of tripartite practices in Central and Eastern Europe are controversial.

Some experts and analysts think that its exclusive mission was to legitimise unpopular governmental measures taken under grave economic constraints by reference to social consensus, or at least understanding. Others tend to look upon it as an institution for the “mutual legitimisation” of organisations representing interests, but lacking real and strong membership and for governments having lost the support of their electorate. Still others –

¹³ Morawski, W.: Trade unions in Poland: dilemmas of Dependence, Independence and Relative Autonomy. 1992. (manuscript)

including the author of the present book – admit the truth in the above arguments and at the same time have the conviction that tripartite practices may also have a mission in the establishment of the new order, in providing public acceptance for the transformation and reforms, while contributing to the improvement of governmental decision-making and legislation, and reinforcing public support for or at least public acceptance of governmental policies.

What were (are) the major functions of tripartism in the region? These include the following four major fields:

1. national level wage negotiations and the conclusion of national wage agreements, for both the business sector and public services;
2. participation in the establishment of new labour relations institutions and their legislative framework to fit the emerging pluralistic democracies and market economies – including the removal of obstacles to the development of new type labour relations (such as the elimination of previous state wage regulations preventing genuine free wage bargaining);
3. participation in public policy formulation and implementation during the transition period, primarily in the field of income, wage, employment and social policies;
4. settlement of nationwide social (labour) conflicts.

8. National level wage bargaining

The agreements achieved “tried to strike a balance between three conflicting goals: the need for wage moderation in order to keep a rein on inflation, the need for incomes that allow an acceptable standard of living, and the attempt to gradually abolish government-imposed wage control measures and introduce a wage system governed by market forces.”¹⁴

In Hungary the National Council for the Reconciliation of Interests was established in 1988 by the Nemeth Government primarily as an institution of national wage negotiations – to replace wage regulations by the government – but it was also used for economic and social policy consultations from the very beginning.

The NCRI was given the authority to determine the statutory national minimum wage as well as to adopt recommendations as to annual growth of gross earnings in the business sector. Although governmental wage regulations were maintained by the Nemeth and Antall Governments for a transitional period (1989-92), the new regulations were already extremely liberal in 1992, compared with other countries of the region.¹⁵ In 1992, on the basis of an agreement achieved in the tripartite council, wage regulations were suspended and in 1993, as a consequence of another tripartite agreement, they were abolished.

A similar path was followed by Czechoslovakia and Poland. In the former country – and afterwards in the Czech Republic and Slovakia – the statutory minimum wage was also

¹⁴ Casale, G: Introduction. In: Casale, G. (Ed.): Social Dialogue in Central and Eastern Europe. International Labour Office, CEET. Budapest. 1999. p. 13.

¹⁵ Governmental wage regulations in most countries of the region were maintained until the mid 1990s. See: Vaughan-Whitehead, D. (Ed.): Paying the Price. The Wage Crisis in Central and Eastern Europe. Macmillan Press (London) – St. Martin's Press (New York), 1998.

determined via tripartite agreements.¹⁶ In the latter country it was a central issue in the negotiation preceding the State Enterprise Pact to ease the heavy taxation on wage growth and to promote negotiated wage policies.¹⁷

Tripartite wage agreements had a decisive influence over the wage growth of the business sectors of Hungary in the period 1992-98 and of Poland in the years 1995-96.

9. Reconstruction of labour law and labour relations

Tripartism in those countries where it existed in the early 1990s or prior to this period, made a contribution to the reconstruction of labour relations and to the establishment of the new institutions and legislation.

As wage bargaining is the central tenet of collective bargaining, the elimination of governmental wage regulations – with the assistance of tripartism – opened up the way for genuine collective bargaining. At the same time legal regulations were adopted too: in Czechoslovakia in 1990, in Poland in 1991, in Hungary in 1992, in Bulgaria in 1993 etc.

Another related important development was the legal regulation of collective labour disputes and their settlement. The first strike law of the region was born in Poland as early as 1982 to be followed by similar legislation in Hungary in 1989, in Bulgaria and in Czechoslovakia in 1990.

In Hungary the Interest Reconciliation Council – after its position had been reinforced by the Antall Government in 1990 – had an active part in the preparation of both the Employment Act (1991) and the Labour Code (1992). According to the latter piece of legislation, “The government is to consult the national interest representation organisations of the workers and employers in all issues of national importance concerning labour relations and employment relationships within the framework of the Interest Reconciliation Council.”

In Czechoslovakia it was the 1991 tripartite General Agreement which made it the government’s obligation to have tripartite consultations on its legislative initiatives and other envisaged measures.¹⁸

In Bulgaria the tripartite body also had a role in the preparation of the Labour Code (1993).

The outcome of these debates about the future labour relations institutions and labour legislation had a decisive impact on the trade unions’ and workers’ positions vis-à-vis the employers and the governments in the new conditions of the emerging market economies based on private ownership.

The major issues to emerge in most countries included the following: What kind of rights, protection and working conditions were the trade unions to be provided with at the enterprises? What would be the future of the institutions of workers’ participation at the

¹⁶ Hradecka, J.: Changes in today’s Czechoslovakia. IVth International Meeting of Work Sociology. Bologna-Forli, 10-17th November 1992. Pollert, A. – Hradecka, J.: Spring 1993 – Between State Dis-Ownership and Privatization: Managers, Unions and Workers in the Czech Republic. 11th Annual Labour Process Conference, Blackpool, April 1993.

¹⁷ Tyszkiewicz, M.: Jacek Kuron’s New Economic Policy. Labour Focus on Eastern Europe. 1992. No 43. 31-33.p.

¹⁸ Musil, J. *ibid.*.

enterprises (such as the Enterprise Councils in Hungary or the Employees' Councils in Poland)? Were these institutions – constituting a “second channel” of workers' representation beyond the unions – to be maintained in a reshaped form or to be eliminated? Who were to be given the right to go on with collective bargaining and to conclude collective contracts – the trade unions or perhaps other representatives of the workers too?

The last issue generated very heated debates and provoked firm protests on the part of the trade unions, who felt – with good reason – that their *raison d'être* was in danger. In Czechoslovakia the debate resulted in a sharp confrontation between the trade unions – threatening a general strike – and the government and parliament. In Hungary the same idea emerged in the course of the preparation of the Labour Code in 1991, but it was soon rejected by the government, being aware of the danger of similar sharp reactions by the trade unions.¹⁹

As a result of the reconstruction of labour relations institutions and legislation the trade unions retained their right to collective bargaining, but their influence on managerial decision-making – as well as the similar influence of the bodies of workers' participation – was curtailed. This development was justified in general by the emerging market economy and private owners-employers, whose rights could not be limited by maintaining the earlier socialist prerogatives of workers' representatives.²⁰ In fact, the earlier rights of trade unions – and other bodies of workers' representation – had been tacitly meant to compensate for the lack of genuine collective bargaining and agreement, for which the way was opened up after the political change.

While in Hungary workers' participation as a “second channel” of workers' representation was kept – Works Councils were established on the basis of the Labour Code in 1993 – in Czechoslovakia it was rejected, despite its long traditions going back to the pre World War II period.

The decreased influence of trade unions at enterprises was counterbalanced by their influence on public policy formulation via the national tripartite structures.

10. The hot issue of income policies

Wage, income, social and employment policy formulation and measures were hot issues in the relationship of governments, trade unions and employers.

The income policy agreements achieved – such as the 1991 General Agreement in Czechoslovakia and the 1992 November IRC Agreement in Hungary – had several common features:

- 1) although they were looked upon as “general”, they covered only a set of concrete income policy measures – such as the statutory minimum wage, unemployment benefits, social assistance, exemptions from taxation etc. – and did not touch upon governmental strategies;

¹⁹ It was an interesting and belated measure by Hungary's second Conservative Government in 1999 that it provided Works Councils – bodies of workers' participation at the enterprises – with the right to be engaged in collective bargaining and to conclude collective agreements in the absence of trade unions. This amendment of the Labour Code was passed by the Parliament – despite sharp protest by the trade unions and ICFTU (International Confederation of Free Trade Unions.)

²⁰ In Hungary Enterprise Councils disposed of the employer's rights over the management of the companies and trade unions had co-decision rights as to setting personal salaries and wages.

- 2) they were short term agreements, concluded for one year or for even shorter periods until a new agreement was achieved or an action by legislation was taken. (The Hungarian tripartite income policy agreements could be considered as tripartite “annexes” to the annual state budget.)
- 3) they contained a combination of some positive and grave negative measures for the workers and employers. (The 1991 General Agreement in Czechoslovakia for example allowed for an increase of the statutory minimum wage, but envisaged a 10-12% cut in real wages.)

(The Hungarian income policy agreements will be discussed in more detail in Chapter V.)

Some Bulgarian agreements – achieved in the framework of the country’s very fragile tripartite exercises – went beyond concrete policy measures and had ambitions to define strategies, but such practices proved to be short-lived.

There is no doubt that such agreements, even if covering only a set of income policy measures, may make a useful contribution to the alleviation of tensions and to the prevention of conflicts, which was a major mission of tripartism and a major motivation for the governments to maintain the tripartite structures.

11. Conflict prevention and settlement

In Hungary the Interest Reconciliation Council had a key role in the settlement of the only nationwide conflict of the 1990s, known as the taxi and lorry drivers’ blockade. It was a demonstration against the raising of the then controlled price of petrol in 1990. The IRC – despite the fact that its statutes had no provisions for a role in conflict settlement and the majority of the drivers were private small entrepreneurs – did settle the dispute in a one day (open and televised) sitting. It was this occasion which considerably increased the prestige of the tripartite body and made it known to the public and to the mass media.²¹

Hungary’s taxi and lorry drivers’ blockade had a part in the quick decision of the Czechoslovak government – which was engaged in a conflict with the trade unions referred to above – to establish a tripartite institution and hurriedly to conclude the General Agreement in January 1991. The Council of Economic and Social Agreement had in its statutes the duty to deal with nationwide social conflicts, which fortunately have not occurred.²²

In Bulgaria the Popov Government, when it decided to liberalise prices in order to receive an IMF loan, signed the tripartite “Agreement on Social Peace” in January 1991 to prevent possible strikes and demonstrations.²³

In Poland it was under the pressure of the 1991-92 strikes that the government started negotiations with Solidarity on the procedures of conflict settlement in the state sector and opened up the way for the establishment of a tripartite body.²⁴

²¹ Ladó, M.: The losers’ victory – the winners’ defeat? Contribution to the Conference “Social Conflicts”. Labour Research Institute, Budapest and Luigi Sturzo Institute, Rome – Rome, 29-30th May 1991.

²² Musil, J. op.cit.

²³ Thirkell, J.E.M. – Tseneva, E.A.: Bulgarian Labour Relations in Transition. Tripartism and Collective Bargaining. International Labour Review, Geneva, 1991. Vol. 130. No 2.

Tripartism may be an alternative to restrictions of the right to strike with reference to public interest. Such restrictions – when the state is a major employer in the economy and it takes measures which hurt the interests of workers – promise very little success. (In Poland in 1991/92 15-30%, in Czechoslovakia 15% of the strikes could be classified as unlawful.)²⁵

12. The absence of grand agreements

In the 1990s it was fashionable to talk about, with some exaggeration, “social contracts” or “social pacts” in Central and Eastern Europe, i.e. about grand agreements mapping out the major directions for the political and economic changes. Although there were initiatives to this end, it can be stated that no such agreements have been born as yet and most probably none will be concluded in the future either.

In Hungary the Horn Government made an attempt in 1994-95 to achieve such a grand Social and Economic Agreement, but it failed. (It will be discussed in Chapter VI.)

The political agreements in Hungary and Poland which paved the way for smooth political transition failed to meet the standards of such grand agreements too, as they did not cover economic transformation and its social consequences. The economic and social programmes – if they existed at all – were worked out later on by narrow groups of experts and approved by the governments and parliaments and lacked any social consensus ensuring wider social mobilisation.

The absence of general social agreements indicated the weakness of tripartite co-operation and added to the vulnerability and instability of the tripartite practices and structures.

13. The expanding world

Up to the present day several countries – e.g. Hungary, Poland, Slovenia and to some extent the Czech Republic – have been able mostly to overcome those difficulties of economic transformation and stabilisation which laid heavy burdens on the shoulders of both workers and employers.

They have become more and more closely integrated into the globalized world economy, enjoy considerable inputs of foreign direct investments and the presence of an increasing number of multinational companies. They are among the applicant countries which have the best chance of joining the European Union relatively soon.

This situation creates new conditions – at least in the most advanced countries — for tripartite practices as well. With gross simplification at least two important developments have occurred:

firstly, in the context of sustainable economic growth the governments are less exposed to social pressures to rely on tripartite dialogue as an indispensable instrument for the alleviation and prevention of conflicts generated by economic problems and the emergency measures to solve them, regardless of their political philosophy;

²⁴ Baczkowski, A.: Preventing and resolving industrial conflict (in Poland). OECD Seminar on Conflict Settlement, Warsaw, 18-20 May 1992.

²⁵ OECD, Preventing and Resolving Industrial Conflict. Labour Market and Social Policy Occasional Papers. Paris. 1993. No 11.

secondly, it is an expectation on the part of the European Union towards its members – and the applicants – to maintain social dialogue with the trade unions, employers and other interest groups. In addition the Union, if it can be formulated in this way, is “trade union friendly” and “employer friendly”.²⁶

In this context there can be little doubt that tripartite practices, in one form or another, will survive in Central and Eastern Europe.

Nevertheless it will continue to depend on the mutual commitment, intentions and positions of power of the national governments, trade union confederations and employers’ associations to what extent they become effective and influential instruments of public policy formulation and implementation or empty and formal demonstrations of the alleged existence of social dialogue.

²⁶ Social dialogue, in its original and narrower interpretation, meant negotiations and agreements between the European unions and employers. Nowadays, in a wider interpretation, it covers all consultations with the involvement of the governments – the European Commission – and the unions and employers.

Chapter II

INSTITUTIONS AND PROCEDURES

In Hungary institutionalised tripartism has a history of more than ten years. Its key institution – the Interest Reconciliation Council – was established at the end of 1988.

The fact that tripartite practices have survived a great number of political changes underlines the continuity of the political and social needs which contributed to their existence.

Hungarian tripartism was conceived in the period of the last Communist governments, headed by K. Grósz (1987-88) and M. Németh (1988-90). It was revived and confirmed by the first freely elected government – the Conservative Government headed by J. Antall and P. Boross (1990-94). It was given an increased emphasis by the Socialist-Liberal Government of Gy. Horn (1994-98) and it has been maintained – even if its role and influence have been reduced – by the second Conservative government headed by V. Orbán.

1. The system of tripartite institutions.

The tripartite institutions¹ – as tripartite practices were no longer limited to the Interest Reconciliation Council by the mid 1990s – gradually developed into what today can be called a system of tripartite institutions. These institutions, their structures and functioning, have become so complex in our time that for outsiders – and sometimes even for participants – it is difficult to find the way. That is why, to understand and to evaluate the 10 year functioning of tripartism in Hungary, it is indispensable to start with an overview of at least the most important national institutions.

With regard to the national level reconciliation of interests three institutions will be presented. Their common feature is that in the period 1990-98 the functions of all three were primarily related to labour policy formulation and implementation:

- 1) the Interest Reconciliation Council (IRC)² had the longest history – as referred to earlier – and was the best known and most prestigious tripartite institution in Hungary. Its authority covered the whole of the national economy. It could be considered as the “key institution” of tripartism.

¹ For a more detailed description of the tripartite institutions, see: (Ladó, M.): National tripartite structures in the Labour field in Hungary. Ministry of Labour. Budapest, 1997. The descriptive parts of the present chapter draw upon this booklet too. For an analysis of the functioning of these institutions in the first part of the 1990s, see: Ladó, M. – Tóth, F. (Eds.): Helyzetkép az érdekegyeztetésről. 1990-1994. (The State of Interest Reconciliation. 1990-1994.) ÉT Titkársága – PHARE Társadalmi Párbeszéd Projekt. Budapest, 1996.

² In Hungarian: Érdekegyeztető Tanács (ÉT).

- 2) the Interest Reconciliation Council of Budgetary Institutions (IRCB³) covered public services, i.e. institutions which were financed from the state budget and employed public servants.
- 3) the Labour Market Fund Steering Committee (LMFSC)⁴ has functions in employment policy formulation and implementation and controls the Labour Market Fund out of which employment policies and employment offices are financed.

In order to promote a better understanding of the functioning of the national institutions of tripartite interest reconciliation the overview will also cover the self-governing bodies of social insurance – the Self-Government of Pension Insurance and the Self-Government of Health Insurance⁵ – which could not be considered tripartite institutions, but provided for the unions' and employers' involvement in social policy formulation and implementation.

The Interest Reconciliation Council could be looked upon as the “key institution” of this system for the following reasons:

firstly, it was the IRC – its committees – from which the other institutions grew, on the basis of the division of tasks and specialisation, and gained independence. Both the Interest Reconciliation Council of Budgetary Institutions and the Labour Market Fund Steering Committee started their “career” as committees of the IRC;

secondly, the IRC provided the “social base” for the other institutions. The national trade union confederations and employers' associations of the IRC were entitled, by the Employment Act, to delegate the worker and employer members to the Labour Market Fund Steering Committee. The same organisations of interest representation “took possession” of the self governments of social insurance – of the Self-Government of Pension Insurance and the Self-Government of Health Insurance – via delegation and election as prescribed by law;

third, the workers' negotiating group in the Interest Reconciliation Council of Budgetary Institutions – which had a decisive role in this body – was constituted by two public service trade union confederations (SZEF and ÉSZT) which were present also in the workers' negotiating group of the IRC.

The development of the above system of institutions – the expansion of the influence of the organisations of interest representation of the IRC – took place mostly in the period of the Conservative Antall Government (1990-94).⁶ What was left for its successor, the Socialist-Liberal Horn Government (1994-98), was to strengthen these institutions, to rely on them and to make them function.

2. The Interest Reconciliation Council

The Interest Reconciliation Council – by international standards – had very strong powers.

Its authority – after its revival in 1990 – covered the whole of the national economy, as laid down in its Statutes. It had two major functions. On the one hand, it was an institution for interest reconciliation as to labour policies (including national wage negotiations and the

³ In Hungarian: Költségvetési Intézmények Érdekegyeztető Tanácsa (KIÉT).

⁴ In Hungarian: Munkaerőpiaci Alap Irányító Testülete (MAT).

⁵ In Hungarian: Nyugdíjbiztosítási Önkormányzat and Egészségbiztosítási Önkormányzat.

⁶ With the exception of the Labour Market Fund Steering Committee, which was established in 1997.

preparation of labour legislation); on the other hand, it was an institution of interest reconciliation for economic and social policies too (covering the preparation of economic legislation, of the laws on the annual state budget and on taxation and of social legislation). The body had mostly consultative, but also certain decision-making rights (e.g. as to the national statutory minimum wage).

The IRC's functioning had a direct impact on governmental decision-making – as the essence of tripartite practices is the self-limitation of the government – and an indirect influence on legislation too. As the parliament was always keen to safeguard its sovereignty, some politicians and political parties disapproved of the practices of pre-legislative consultations within the tripartite institution. Nevertheless agreements achieved in the IRC did not touch directly upon the parliament's authority, as they involved obligations for the government and not for the parliament. If the agreement was related to a piece of draft-legislation, the government was however in a position to push it through the parliament.

Despite the mostly consultative rights of the IRC, the governments of the 1990s were usually motivated to achieve agreements as to draft legislation on the annual state budget and on taxation. At the same time it became a kind of “unwritten rule” – at least the social partners thought so – that the government was obliged to submit amendments to the Labour Code on the basis of a consensus with both the workers' and employers' negotiating groups within the IRC.

The Horn Government concluded a series of agreements in the IRC in 1996-97 (on the establishment of the Labour Market Fund Steering Committee, on the Labour Inspection Act, on the pension reform etc.) It did not make efforts – although it did not refuse either – to achieve agreements on the annual state budget and taxation. Its conviction was, that these issues belong to the authority of the government and parliament and the related necessary consultations could not be limited to the IRC. Despite that in 1997 another income policy agreement was achieved as a result of the consultations on the 1998 state budget and taxation regulations.

It was also realised by the Horn Government that Labour Code amendments cannot be linked strictly to a consensus within the IRC – despite the wishes of both workers and employers – as the often conflicting interests of the social partners, and the absence of consensus and agreement, would paralyse both government and parliament. The government – in both cases when it initiated important changes in labour law – had to neglect this “unwritten rule”.

The unclarified and unregulated nature and relationship of labour and economic policy consultations in the IRC were a source of concern for both the Antall and Horn governments. Possible clarification and regulation were put on the agenda in 1996, when a tripartite agreement was achieved by the Socialist-Liberal Government aimed at the reconstruction of IRC. Nevertheless the ensuing negotiations with the social partners did not yield results.

The IRC's functions, structure and activities were as follows:

- 1) The establishment of the IRC – with wider functions, reinforced organisational structure and with a wider circle of participants⁷ – was initiated by the Antall Government in Summer 1990, soon after it took office.

⁷ The IRC in fact replaced the National Council for the Reconciliation of Interests (NCRI) established by the transition Németh Government at the end of 1988. The NCRI was a forerunner of the IRC. Its major mission was

This institution functioned – practically with the same participants, within the same organisational framework and on the basis of the same regulations – until May 1999, when it was replaced, at the initiative of the second Conservative government, by two new institutions: the National Labour Council and the Economic Council.⁸

- 2) The IRC was constituted by three “sides” (as they were called in Hungarian): the negotiating groups of the workers, the employers and the government.

In the workers’ negotiating group six national trade union confederations participated – four representing the employees of the business sector and two representing the employees of public services. In the employers’ negotiating group nine national employers’ associations were present – all of them representing the employers of the business sector. (The workers’ and employers’ organisations will be discussed in the next chapter.)

- 3) The IRC, as to the scope of its authority, covered both the business sector and the public services in the initial period of its existence.

After a couple of years – with the establishment and separation of the Interest Reconciliation Council of Budgetary Institutions – its authority became mostly limited to the business sector; at least it had no further part in the labour relations – the national wage negotiations – of the public services. Nevertheless the two public service trade union confederations still maintained their membership of the workers’ negotiating group of the IRC.

The relationship of the trade unions of the business sector and of the public services was seriously burdened by the fundamental processes of the national economy having very much differing consequences for the workers in the two fields. In the business sector employment radically declined in the first half of the 1990s: in fact most of the 1.5 million job losses occurred in the business sector. At the same time employment was mostly maintained in the public services, but public servants suffered more radical real wage drops than their co-workers in enterprises. As for the state budget, the business sector unions (as well as employers) stood up for the reduction of state expenditure, of taxes and duties imposed on earnings and profits, by which – if their demands had been met – the employment and earnings of public services would have been put in danger.

The IRC dealt with those general and fundamental economic, social and labour issues, which concerned the workers and employers. Within it the government and the social partners

- carried on negotiations and concluded agreements in labour policy issues. The national statutory minimum wage in the period 1989-99, as well as the recommendations for the annual growth of gross earnings of the business sector in the period of 1992-99, were based on the agreements of the IRC;

double. Firstly, to provide an institutional framework for those tripartite negotiations which led to the deregulation of wage determination, i.e. to the elimination of governmental wage regulations in the business sector and their replacement by a three – national, sectoral and enterprise – level wage bargaining machinery. Secondly, to provide an institutional framework for the national wage negotiations themselves. Later – as the radical transformation of the labour market started – the NCRI became engaged in employment policy related negotiations too. It carried on general economic and social policy consultations as well. Because of the continuity of their functions – primarily in wage determination – in further discussion we will make no distinction between them. NCRI will be referred to as IRC too.

⁸ In Hungarian: Országos Munkaügyi Tanács (OMT) and Gazdasági Tanács (GT).

- had consultations on economic, social and labour draft legislation, including that on the annual state budget, taxation, employment, labour relations etc. (pre-legislative consultations);
 - had general consultations on such national economic and social issues as were considered by the workers and employers to be of decisive importance for them (general policy consultations).
- 4) Within the IRC the social partners had the rights to be informed, to be consulted and – in some exceptional cases – to consent.
- The social partners had the right to be informed in all those economic, social and labour issues in which workers' and employers' interests were – directly or indirectly but strongly – concerned. At the request of the social partners the government had to produce oral or written information.
 - The social partners had the right to be consulted in the preparation of economic, social and labour legislation. The government had the obligation to present them with the draft legislation and listen to their remarks and proposals for modifications, but it had no obligation to accept them.
 - The right to consent of the social partners imposed the constraint of co-decision upon the government. In certain issues – specified by the Labour Code or the Statutes of the IRC – the government was allowed to act only on the basis of an agreement achieved in the IRC (setting the national statutory minimum wage, daily working hours, public holidays etc.).

The IRC was created by the agreement of its participants – the government, the national trade union confederations and employers' associations – and not by an act of legislation. Consequently the institution itself had no legal foundation. Its functions and rights were regulated by its Statutes – adopted by its three “sides” in 1991. Certain of its functions however were regulated by laws: the Labour Code, the Employment Act, the Vocational Training Act and the Labour Safety Act.

5) The IRC had the following activities in the period 1990-99:

- it was the institution of national wage negotiations and agreements;

The determination of the national statutory minimum wage after 1st January 1989 was based on the tripartite agreements achieved in the IRC – for which the foundation was provided in the initial period (1989-92) by the three parties' consensus and later on (after 1992) by the Labour Code.

The IRC also issued annual recommendations as to the growth of gross earnings in the business sector and in this way it provided orientation for enterprise and sectoral (branch) level wage bargaining;

- it had repeated consultations on economic, social and labour draft legislation, including those of the annual state budget and taxation, which led to a series of income policy agreements (in 1991, 1992, 1993, 1994 and 1997);

- it made attempts on two occasions to achieve general and longer term tripartite agreements. In 1994-95 it had a Social and Economic Agreement and in 1995 a price and wage agreement on its agenda, but none of them could be achieved;
- it had a decisive role in the preparation of the Labour Code (1992) and its repeated amendments. It also made a considerable contribution to the Labour Inspection Act (1996);
- it made its impact felt on the Employment Act (1991) and its repeated amendments. It contributed to employment policy formulation, to the development of active employment policy instruments as well as to the establishment of the employment insurance system. Its agreements (1996) served as a basis for the establishment of the Labour Market Fund Steering Committee (1997);
- it contributed – directly or indirectly – to the development of labour relations institutions.

The Labour Mediation and Arbitration Service – an institution to promote the settlement of collective labour disputes of interests – was set up in 1996 – after several years of preparation – on the basis of an IRC agreement and functioned under the authority of the IRC, as an independent agency;

- it settled the taxi and lorry drivers' blockade in October 1990 (as referred to in Chapter I.)
- 6) The IRC had 115 plenary meetings in the period between 1st August 1990 – its founding sitting – and February 1998 – its last sitting in the period of the Horn Government. Although the frequency of the sittings kept changing, in its last years the IRC had a plenary meeting every three-four weeks. The IRC's specialised committees in the same period had about 400 meetings, not to mention the ad hoc committees, expert meetings etc.

3. Tripartism in public services

The Interest Reconciliation Council, beyond any doubt, covered the whole of the national economy, including public services, in the first half of the 1990s. It provided an institutional framework for the national wage negotiations in both the business sector and the public services. The last public service wage agreement – as part of a wider income policy agreement – was concluded in it by L. Békesi, Finance Minister of the Horn Government in November 1994. This action was sharply criticised by the participants of the Interest Reconciliation Council of Budgetary Institutions, which already existed at that time.

The IRC was gradually squeezed out from public services and replaced – very justifiably – by the Interest Reconciliation Council of Budgetary Institutions (IRCBI), which united all those actors who had an interest and were involved in the growth and financing of public service salaries, such as the government, the public service unions, the municipal governments, the employer institutions – as well as the Health Insurance Caisse. (By comparison, in the IRC only the two public service trade union confederations and the government were present from among these actors.)

For the first time in 1996 the national wage agreement for public services was concluded within the framework of the IRCBI – to be followed by similar agreements for 1997 and 1998. It should be added that annual consultations on the draft law of the state budget also gravitated from the IRC toward the IRCBI, as public services were the direct beneficiaries or

victims of the budget. (Despite the fact that the IRCBI – unlike the IRC – had no official mandate for such consultations.)

It contributed to the importance of the IRCBI, compared with the IRC which was practically limited to the business sector, that the Horn Government not only had but also felt a direct responsibility for public services. In addition, the public service unions had retained their strength – unionisation remained on a higher level here than in the business organisations – and their capacity to exercise pressure, as shown by the national demonstrations in Autumn 1995 and the strike threats in Autumn 1996. (In the business sector the last serious general strike threat was formulated in 1992 – but its practical implementation led to rather doubtful results.)

In the second half of the Horn Government's term the IRCBI had a status at least equal with that of the IRC. Negotiations in the institution were conducted by the political state secretaries of the Ministry of Labour and the Ministry of Finance, often attended also by the ministers, and the agreements achieved were countersigned by the Prime Minister.

The IRCBI's structure, functions and activities were as follows:

- 1) The IRCBI was the interest reconciliation forum for those institutions – their employees and employers – which were financed from the central state budget, the budgets of the municipal governments and the Health Insurance budget and which provided public services (such as education, health service, cultural institutions etc.).

It was established as an independent institution – separate from the IRC – in 1992.⁹

It was recognised as a national interest reconciliation institution for public servants and the labour relations of public services by the Act on the Legal Status of Public Servants (1992).

The IRCBI was eliminated – after one and a half years' neglect – by the second Conservative Government in October 1999.

- 2) The IRCBI's authority – in principle – was clearly defined: it covered the public services and public servants, i.e. the largest group of state employees, but not all of them.¹⁰

⁹ The first interest reconciliation institution for public services, called the Interest Reconciliation Council of Budgetary Institutions for Labour, was established in 1989, in the period of the Németh Government; it functioned alongside the National Council for the Reconciliation of Interests (NCRI) and dealt with the special issues of financing of the budgetary institutions. In the period 1990-92, when the IRC assumed the role of interest reconciliation in public services as well, the Interest Reconciliation Committee of the Budgetary Institutions was one of the IRC's committees. When the IRC's Statutes were discussed and adopted in 1991, the public service actors opted for independence and separation. The IRC's Statutes – in the absence of the agreement of those concerned – did not contain provisions for public services.

¹⁰ The budgetary sector has three distinct groups of employees in Hungary: the public servants, i.e. the employees in (state) education, health service, social care institutions, cultural institutions etc. – covered by the Act on the Legal Status of Public Servants (1992), the civil servants, i.e. the employees of central and municipal state administration – covered by the Civil Servants' Act (1992) and finally the members of the armed forces (the police, the military etc) – covered by the Armed Services Act (1996). The civil servants and armed forces had separate interest reconciliation institutions. It should be noted that the employees of state owned companies (like the Hungarian State Railways, the Hungarian Post Office, the Budapest Transport Company) fall under the Labour Code like the employees of private undertakings.

The IRCBI's authority – in practice – remained unclarified for a couple of years, both in relation to other budgetary institutions and groups of employees and to the business sector, and was exerted only in the second half of the 1990s.

On the one hand, the IRCBI's participants included – by tradition – workers' organisations part or all of the membership of which was not public servants, but civil servants or within the armed forces.

That is why the IRCBI's national wage agreement in 1996 – for the last time – covered the salary increases for civil servants too.

On the other hand, the IRC – as referred to above – retained the right for some time even after the establishment of the IRCBI, to carry on wage negotiations and conclude wage agreements for the public services as well.

By 1997 the dividing lines in authority became distinct and clear.

- 3) The IRCBI was constituted by three “sides”: the negotiating groups of the (central) government, of the municipal governments and of the public service unions.
- 4) There was also a fourth negotiating group – in observer capacity with no right to vote – that of the employer institutions.

The number of actors was very large: 20 trade union federations participated in the workers' negotiating group – the majority of them belonging to the two trade union confederations (SZEF and ÉSZT), which were present also in the IRC. The negotiating group of municipal governments included seven associations of the various types of local governments. The employer-institutions' negotiating group had six associations as members. (Their list and description can be found in Chapter III.)

- 5) The IRCBI's function was to deal with all issues related to the salaries, employment and working conditions of public servants, to labour relations in public services and to the regulation and financing of budgetary institutions. Its authority covered all issues of national importance which
 - touched upon public servants and budgetary institutions as a whole and
 - were related to the distribution of the wage fund approved by the law on the annual state budget or created in the course of the year.

In the IRCBI the participants – like those in the IRC –

- carried on negotiations and concluded agreements concerning the public services as a whole or their major parts (e.g. agreements on job categorization and wage scales);
- engaged in pre-legislative consultations on the drafts of those pieces of economic, social and labour legislation which were of decisive importance for the interests of the major actors of public services;
- had general policy consultations in such national economic and social issues as were of decisive importance for the public services.

In the IRCBI the social partners – in this case the trade unions, the municipal governments and the employer institutions – had the rights to be informed and to be consulted.

The IRCBI – unlike the IRC – had no strong co-decision rights.

6) As for its activities in the period of its existence (1992-99) the IRCBI

- had a role in the preparation of the repeated amendments of the Act on the Legal Status of Public Servants, especially in the corrections of the uniform job categorization and wage scale of the public services. The draft amendments submitted to the parliament by the government in most cases enjoyed the approval and support of the IRCBI – or at least of its workers' negotiating group.
- provided the institutional framework for those negotiations which led to the conclusion of the Three Year Agreement of Public Servants in March 1996 – the only general and longer term agreement achieved as yet in the tripartite structures in Hungary.

The Three Year Agreement – which was signed in the second difficult year of macro economic stabilisation causing serious losses in public service real salaries – mapped out the major directions for the reconstruction of public services – the targets to be achieved and the methods to be followed – and the means for the settlement of the related employment, salary, legal protection issues. This agreement paved the way for the 1997-98 real salary growth in public services.

- was the institution responsible for annual national wage negotiations and agreements for public services (1996-98).

7) The IRCBI had about 60 plenary sittings in the period between 14-15th July 1992 – its founding sitting – and 1998. The frequency of its meetings was regular.

8) Both the IRC and IRCBI had intervals in their meetings in the periods prior to the parliamentary elections in 1994 and in 1998. The governments in these periods were already engrossed in their preparations for the elections and the social partners were not too eager either to be engaged in talks with the (perhaps outgoing) administration.

4. Rules and procedures

It was normal and understandable that the procedures of IRC and IRCBI should be bureaucratic and strictly regulated and their sittings and negotiations were extremely time consuming – like those of other democratic institutions – but it was less normal and less understandable that – unlike other democratic institutions – participation in them was not based or was only partially based on clear democratic rules. No criteria were set up – except for the workers' negotiating group of the IRCBI – for representativeness allowing for the presence of the organisations of interest representation.

The absence of such regulations did not seem to cause much concern to the social partners, although otherwise they were on the alert to safeguard against even minor violations of the rules and kept sending hard-hitting messages to the governments protesting against such alleged violations.

When the IRC was set up in 1990, it was done so that – as it is ironically but rightly put by experts – “those who happened to be in the room quickly sat down at the negotiating table.”

In 1990 it was not only to be anticipated, as both the trade unions and employers’ associations were in a stage of self-organisation and reconstruction, but obvious too, that it was imperative to create rules for participation and representativeness as soon as possible, because the credibility of tripartite negotiations and agreements was dependent on the legitimacy and membership support of the participants.

Such clear and democratic rules could have guaranteed the IRC and the IRCBI – their negotiating groups – against the risk of being expropriated and dominated by less important organisations and leaders, misusing the institution to promote their narrow organisational or personal ambitions.

The absence of such regulations became especially painful when the IRC’s workers and employers were granted the entitlement by law to delegate representatives to various governmental decision-making bodies (e.g. to the board of the State Property Agency) and to bodies in control of state funds (such as the Pension and Health Insurance Funds, the Labour Market Fund), and organisations of interest representation outside of the IRC indicated that they would like to have their share of these rights too.

That is why in 1996 the Socialist-Liberal Horn Government initiated and achieved a tripartite IRC agreement which obliged the workers’ and employers’ negotiating groups to work out and set up criteria of representativeness for participation – and to open the group up to those who met the criteria – and to establish also internal regulations which would provide rights for members depending on their support.

This task was accomplished in 1996 by the workers, but the employers were unable – or unwilling – to cope with it.

In this context in 1996 the Horn Government – and the parliament – still allowed the employers’ and workers’ representatives to be delegated by the IRC’s relevant negotiating groups to the Labour Market Fund Steering Committee, but in 1997 delegation to the renewed Self-Governments of Pension and Health Insurance was made open for application and linked to the fulfilment of certain minima of representativeness.

As it was primarily the IRC’s workers and employers who won the right to delegate once again – as was to be expected – this test of membership support imposed on them by the parliament in fact strengthened – at least indirectly – the legitimacy of the IRC too; but it was not and could not be a substitute for the IRC’s own rules of representativeness. (This issue will be dealt with in more detail in Chapter VII.)

Nevertheless the IRC’s and IRCBI’s procedures were very carefully regulated.

- 1) The two institutions’ procedures – although in some details they were different – followed identical principles.

It should be emphasised that these principles and procedures are not mere bureaucratic formalities – as a superficial outside observer might think. They were conceived in the spirit of those internationally accepted standards on which sound tripartite practices are built – such as the freedoms of association and bargaining – and at the same time they were

meant to overcome those difficulties which – in the special Hungarian context – could endanger effective functioning, such as the great number and division of the organisations of interest representation. Adherence to the principles – enumerated below – was a guarantee of workability.

The procedures were to

- strengthen the equality and independence of the negotiating partners in conditions where the government exerted disproportionate position and resources;
- promote the formulation of one united political platform within each of the negotiating groups, which were made up of a large number of organisations of interest representation, very often in conflict with each other;
- ensure the democratic and public nature of negotiations;
- highlight the legitimacy and support of the negotiating groups and reinforce the credibility of the institutions;
- involve expertise to back up the negotiations of generally political nature.

The IRC's and IRCBI's rules and procedures – with the one exception referred to – properly underpinned the above efforts.

2) The negotiating groups in both institutions followed the principle of self-organisation.

In the IRC it was the negotiating groups' right to decide as to their composition, including the adoption and exclusion of members. In the IRCBI, on the contrary, presence and weight in the workers' negotiating group was dependent on the results achieved by the individual trade unions in the Public Servants' Council elections.¹¹ The other participants of the IRCBI were listed in its Statutes.

In both the IRC and the IRCBI it was also the negotiating groups' decision to nominate their representatives (spokesmen) in the sittings and in the discussions of the various items on the agenda.

The negotiating groups – with one or two exceptions – had no permanent “appointed” representatives in the negotiations.

These rules meant that no negotiating group could decide – or even to try to influence – which organisations of interest representation or governmental agencies or persons would be seated on the other sides of the negotiating table as negotiating partners.

¹¹ As already mentioned, in Hungary institutions of workers' participation were established both in the business sector (Works Councils) and in the public services (Public Servants' Councils). These bodies were elected by the workers (in business organisations with above 50 employees and in public service institutions with above 15 employees). In the elections the trade unions set candidates, but also “independent” candidates could be set. The votes for the trade union candidates in public services were added and served as a basis for the measurement of their – national, sectoral, institutional – representativeness. The institutions and procedures are regulated by the Labour Code and the Act on the Legal Status of Public Servants.

Adherence to the principle of self-organisation guaranteed mutual independence and excluded interventions by the other parties in the internal affairs of the negotiating groups. Nevertheless, self-organisation – in the absence of criteria of representativeness – became the source of serious problems too, as discussed above.

The government's negotiating group was always set up on the basis of competence. In the IRC, when draft laws on the annual state budget and taxation were discussed, it was represented by the Ministry of Finance – and often by the minister. In national wage negotiations the Ministry of Finance and the Ministry of Labour constituted jointly the negotiating group. Draft labour legislation was presented and discussed by the Ministry of Labour.

In the IRC the government's chief negotiator – the permanent chairperson of the negotiating group with a general mandate – was the Political State Secretary of the Ministry of Labour.¹²

- 3) Both in the IRC and IRCBI each negotiating group was expected to put forward one united political standpoint and had one vote to cast.

This “one voice system” had the definite advantage that it made it indispensable for the negotiating groups to have discussions prior to the official meeting in order to settle the divergences of their interests and views and to find a common platform of compromise. In the absence of such constraint these intra negotiating group divergences could have paralysed the work of the institutions. It probably had longer term benefits too: it promoted contacts, even if not cooperation, among the divided unions and employers.

It also assisted governmental agencies to build up their united standpoint, in a context when the various ministries – the Ministry of Finance, the Ministry of Labour or others – had differing views.

- 4) The IRC had plenary meetings, which were prepared by a tripartite secretariat.
- 5) It had no permanent chairperson: the plenary sittings were chaired by persons delegated by the working groups on the basis of rotation.

The negotiating groups also had chairpersons in the sitting: those people who had coordinated the group's work prior to the sitting and who were entitled to speak, to vote or to sign an agreement on behalf the negotiating group. The workers' and employers' chairpersons were delegated by the member organisations of the groups: in case of the unions for a three month, in case of the employers for a two month period. In the government's negotiating group the government's permanent representative was the chairperson too. To put forward the standpoint of the groups in connection with the various items on the agenda, spokesmen were nominated.

To support and to prepare the work of the plenary sittings the IRC had permanent specialised committees and set up also ad hoc committees to accomplish definite tasks.¹³

¹² In the new governmental structure this position is occupied by the Political State Secretary of the Ministry of Economy (since 1999).

¹³ For most of its life cycle the IRC had 9 permanent committees: the Wage and Labour Affairs Committee, the Economic Committee, the Information Committee, the Goodwill and Ethics Committee, the Labour Market

Certain permanent committees – on the basis of special entitlement by law – assumed tasks going far beyond the back-up of plenary sessions (such as the Labour Market Committee, the Labour Safety Committee, the National Training Council.)

The IRCBI had similar rules, with some differences. It had only plenary sittings and its workers' negotiating group had a permanent coordinator (delegated by the large trade union confederation, SZEF.)

- 6) The IRC's and IRCBI's sittings were open to the public and the mass media. The discussions were recorded. On the IRC's sittings information was published in the official bulletin of the government.

The IRC's and IRCBI's sittings in a sense could be looked upon as "exhibition performances."

The "performance" was sometimes good when well-argued opposing political or professional concepts confronted each other. It was very often poor, when time consuming procedural debates and obscure individual or organisational declarations were on the agenda.

In 1996-98, following the example of the Hungarian parliament, participants often took the floor to give speeches "before the agenda" about problems whose "urgency" and "national importance" were difficult to detect – these being the requirements under parliamentary rules – as was their relationship to the issues on the agenda of the plenary session. Most of the participants were shocked by such performances.

The attraction of the plenary sittings for the social partners was not simply the opportunity to represent and argue for the interests of their constituency, but also the possibility of coverage by the press, radio and television; as those who were visible in the news, whether organisations or individuals, were looked upon as legitimate, accepted and important, due to the fact that the government and the rest of the partners sat down to negotiate with them in public.

To grasp the possibility of publicity, to prove one's importance had a meaning primarily for those who were not perhaps so important and to whom the public otherwise accorded little or no interest. It was by the same token of much less value for those whose importance was beyond any doubt and who were normally in the limelight.

Tripartism needs publicity. Nevertheless it is not reasonable and beneficial if its major – or exclusive – attraction for the mass media is to be found in the mostly empty rhetoric of some participants ritually lashing out at governmental policies. In the difficult years of 1995-96 the repeated "thundering" of some less known leaders of some less important organisations still contributed to building up a kind of publicity for them, but their performance later on became less and less appreciated by the journalists, who became bored and tired of them and – most unfortunately – of the IRC too.

Committee, the Labour Safety Committee, the National Training Council, the Privatisation Committee and the Social Policy Committee. In 1997 the IRC took the decision to set up also a Labour Law Committee – to prepare the revision of the Labour Code – and also an ILO/ European Integration Committee to coordinate the international activities of the government and the social partners. The special functions of the Labour Market Committee will be discussed in the following part of the present Chapter.

Publicity – while in the 1990s it was a powerful tool for building up the image of the IRC – set obstacles to its effective work too, as the natural reaction of most participants to the presence of TV cameras and flash-lights was – while going on with the negotiations – to send “messages” to the governmental decision-makers, to their constituency, to their wives or mothers-in-law watching the TV at home.

To alleviate this difficulty, the Horn Government – while maintaining the official plenary sittings and their invaluable publicity – laid a big emphasis on parallel informal talks behind closed doors. Such meetings opened up the way for the development of important personal contacts, for better acquaintance and understanding with each other, making it possible to formulate such arguments as could not be put forward – for one or another reason – in a public meeting. The Three Year Agreement of Public Servants, for example, was prepared in such negotiations in January-March 1996.¹⁴

While the IRC’s sittings and negotiations, in its initial “legendary” period, were attended by the key political decision-makers of both of the government and the social partners, after the failure of the Social and Economic Agreement (1995) they were replaced – in the employers’ negotiating group – by technocrats, professional negotiators, with a good background as to the issues on the agenda and the procedural rules. No well-known employers participated or paid attention to the meetings, while the government did make available its ministers and state secretaries. Unions continued to be represented by the presidents and vice-presidents of the confederations too.

This development had obvious advantages – the expansion of professionalism – and grave drawbacks. The plenary sittings became overwhelmed with petty discussions on the technical details of the issues on the agenda – in a sense the plenary sitting continued the work which was begun but was not completed in the specialised committees very often with the same participants,¹⁵ and there were not and could not be policy debates, in the absence of some of the key political decision-makers. In addition, the absence of people who were known to the public – even if they were replaced by professional negotiators – degraded the image of the IRC. Both the public and the mass media could conclude: if the IRC is not attended by “serious people” perhaps it is not serious either any more.

As the Horn Government was aware of the importance of high-level political contacts with the social partners, in 1997-98 the Prime Minister regularly invited the No 1 leaders of the IRC’s trade union confederations and employers’ associations to his office for political talks. These meetings were structured around topical political issues and contributed to the negotiated settlement of several sensitive problems. By these regular – informal and closed – meetings a new interest reconciliation forum appeared on the scene: it was constituted by the political leaders of the IRC’s organisations, it functioned “beside” or “above” the IRC, and it complemented the IRC’s activities by restoring the much needed practice of general political debates and negotiations.¹⁶

¹⁴ These practices were sharply criticised by part of the IRC’s participants and part of the press, as – it was said – they contradicted the essential rules of democracy. As far as I can see, informal talks are as legitimate as formal ones, in any democratic country.

¹⁵ In Spring 1996, when the Labour Mediation and Arbitration Service was set up, the “high body” got stuck in a several hour discussion on the text of the application for the position of the Service’s would-be director.

¹⁶ The meetings always had economic policy issues on their informal agenda. In addition the issues discussed included the reconstruction of the IRC itself, the renewal of the Self-Governments of Pension and Health

These meetings resulted in several informal agreements on issues which could not be settled by the IRC, and which bound the negotiators in the tripartite body. The latter were often – or pretended to be – ignorant as to what happened in the Prime Minister's office: communication between them and their superiors could be imperfect. They also felt hurt and reluctant to accept that “others” had talks and arrived at an understanding “above their heads.” Political decisions are sometimes difficult to tolerate and to abide for bureaucracies.

5. Employment related cooperation

Both the IRC and the IRCBI dealt with issues of employment, as declining employment and growing unemployment were new, pressing phenomena in the 1990s touching upon both workers and employers. Nevertheless, interest reconciliation and tripartite cooperation in such issues – due to their importance – developed into a new stream of tripartism in Hungary.

When the IRC was established (1990), its Labour Market Committee dealt with employment issues. It soon acquired however a “special status” among other committees, as it assumed a double function: firstly, it remained one of the specialised committees supporting the IRC and secondly, it became entitled by the Employment Act (1991) to decide about the utilisation of the Employment Fund, setting principles, defining ratios for its distribution, providing money for definite labour market programmes. In this way the Labour Market Committee was promoted into the position of an important tripartite decision-making institution, functioning separately and independently of the IRC and its plenary meetings.

The Labour Market Committee in 1997 was replaced – in its functions related to the Employment Fund – by the Labour Market Fund Steering Committee (LMFSC), a tripartite body which had even wider decision-making authority and which became also formally independent of the IRC.

The establishment of the LMFSC was made possible by the merger of several major and minor separate state funds out of which various labour policy exercises had been financed: the Employment Fund (financing employment policy measures), the Employees Solidarity Fund (covering unemployment benefits), the Rehabilitation Fund (promoting the rehabilitation of workers), the Vocational Training Fund (supporting the development of training) and the Labour Safety Fund. The new united state fund was called the Labour Market Fund.

The establishment of the LMFSC was aimed also at the separation of tripartite interest reconciliation in employment issues and of the management of and control over the financial resources supporting governmental employment policies. For the purposes of the former the Labour Market Committee was maintained.

The LMFSC's functions, structure and activities are as follows:

- 1) The LMFSC disposes of the Labour Market Fund which is the third biggest separate state fund – after the Pension and Health Insurance Funds – made up of contributions by the employers and the employees.

Insurance, the promotion of collective labour relations, pension reform etc. The meetings were attended by other members of the government too – usually by the Ministers of Finance and Labour.

This institution – established in 1997 – has been maintained by the second Conservative Government too.

- 2) The LMFSC exercises its functions on the basis of its entitlement by the Employment Act and together with the Minister of Labour.

It has the right to take decisions, make proposals, formulate opinion, prepare evaluations, ask for information and initiate investigations concerning the Labour Market Fund and its subfunds.

It is entitled among other things to decide about the transfer of financial resources between the subfunds, about the division of the Employment Subfund and the Rehabilitation Subfund into centralised and decentralised parts, about the principles of decentralisation, about starting and financing central training and employment promotion programmes etc. It makes proposals also for the annual employment budget.

It has the right to be consulted among other things about the government's employment policy strategies and directives, about unemployment benefits and other assistance for the unemployed, about subsidies aimed at employment promotion, about draft regulations concerning the Labour Market Fund, about the Minister's decisions concerning crisis situations in employment etc.

The LMFSC regularly – at least once in every quarter year – evaluates the utilisation of the Labour Market Fund.

As can be seen from the list of rights above, the establishment of the LMFSC – despite the target set – did not result in the separation of interest reconciliation in employment issues and the management of the employment budget. The functions it was given go far beyond fund management. The explanation lies in the unceasing greed of some organisations of interest representation (or rather of their specialised bureaucrats) to get hold of and monopolize as many formal rights as possible. No trade union or employer bureaucrat, moving over from the Labour Market Committee to the LMFSC, wanted to give up any prerogative he or she already had. As a result the Committee – although it was maintained at the request of the social partners – had nothing to do and its functioning was practically suspended.

Despite the long list of the LMFSC's rights the Minister of Labour was left in a position to take most of the decisions – if needed – autonomously.

- 3) The LMFSC is a tripartite body – it is made up by the government's, the workers' and the employers' negotiating groups, each of them having six members.
- 4) The six members of the employers' negotiating group were delegated on the basis of their agreement by the nine employers' associations within the Interest Reconciliation Council.¹⁷

¹⁷ These are the following: National Association of General Consumer Co-operatives (AFEOSZ), National Association of Industrial Corporations (IPOSZ), Hungarian Industrial Association (OKISZ), Hungarian Employers' Association (MMSZ), National Association of Agricultural Producers and Cooperatives (MOSZ) and National Association of Entrepreneurs (VOSZ).

The six members of the workers' negotiating group were delegated by the six trade union confederations within the IRC.

The government's negotiating group in 1997-98 was made up of four representatives of the Ministry of Labour and one representative each of the Ministry of Finance and the Ministry of Social Welfare.

Interest reconciliation and cooperation between the government and social partners in employment issues made a contribution to Hungary's successful dealing with the appearance and the rapid growth of mass unemployment.

While in 1990 – in the year of the establishment of the Interest Reconciliation Council and its Labour Market Committee – the number of registered unemployed was 20-30,000 and the unemployment rate was below 1%, in 1993 – when the growth of unemployment reached its peak – the number of registered jobless people amounted to about 700,000 and the unemployment rate rose to 13-14%. It was due to the employment policies worked out and implemented jointly by the government and the social partners that this shock and crisis situation could be managed.

The cooperation among the government and the social partners, in the initial period was smooth and free of tensions, as financial means were abundant, and new employment policy instruments were invented and introduced, practically without financial constraints. Later on, when financing became tight and the state budget practically withdrew from the financing of employment policies, grave tensions and conflicts burdened the functioning of the tripartite institutions.¹⁸ (See Chapter V. on income policy debates and agreements.)

6. Connections to social insurance

The Self-Governments of Pension and Health Insurance – established in 1993 by the first Conservative Government and dissolved in 1998 by the second Conservative Government – were “favourite children” of the Interest Reconciliation Council, in the sense that these bipartite bodies – managing the largest separate state funds, the Pension and Health Insurance Funds – were made up of the representatives of the national trade union confederations and employers' associations of the tripartite council.

The self-governments were made up, in the intention of the relevant legislation, partly of the representatives of those who made contributions to the pension and health insurance funds and partly of the representatives of those who were entitled to the services financed from these funds. These abstract legal concepts in 1993 and in 1997 were given the – highly debatable – practical political interpretation, that by those making contributions the employers were meant and by those entitled to the services the employees – retired and active – were understood, whose representatives were the employers' associations and the trade unions (and some pensioners' organisations) respectively.

Consequently in 1993 the IRC's employers' associations were given the possibility to delegate representatives to the self-governments, while the trade unions had to compete in elections – held with the participation of all voting citizens – to achieve the right of sending their representatives. In the – for the government rather hostile – social and political

¹⁸ Reference has to be made to the evaluation prepared by Lilla Garzó, deputy state secretary for employment, Ministry of Labour (1995-98) for the Hungarian version of the book.

atmosphere of Spring 1993 the elections proved viable and were won by the big old trade union confederations, the National Association of Hungarian Trade Unions (MSZOSZ) becoming the predominant force in them.¹⁹ The 1997 renewal of the self-governments – in this case by delegation for both the employers and unions – practically confirmed their previous composition. (For more details, see Chapter VII.)

The relationship of the IRC, its workers and employers, and of the Self-Governments of Pension and Social Insurance, was far from being transparent.

For a time it was thought in the IRC that the tripartite body had no authority to negotiate social insurance as such issues were to be dealt with in the direct contacts of the government and the self-governing bodies of this field. Nevertheless it tacitly acknowledged the fact that the government and the Self-Governments of Pension and Social Insurance did not talk too much to each other – except for distant shots and messages via the mass media – the points of conflict being the huge deficits and the alleged mismanagement of – primarily – the Health Insurance Fund and the government's efforts to curtail the health budget. It was also accepted tacitly by the IRC that its delegates – or representatives – considered themselves as absolutely independent.

At the same time the IRC's workers and employers themselves became the painful victims of the – justified or unjustified – negative political and social reputation which the self-governing bodies of social insurance earned.

Public opinion in its judgment made no distinction between the IRC and the self-governments.

In 1995-96 the relationship between the Horn Government and the Self-Governments of Pension and Health Insurance became increasingly conflictual: the Government had to pump large sums from the state budget to that of Health Insurance to cover deficits and the daily press was full of discoveries of alleged mismanagement and corruption.

That is why the government, seeking solutions for the problems, preferred to engage in talks not directly with the self-governing bodies, but with the organisations delegating them within the framework of the IRC. In Autumn 1996 draft legislation on social insurance was discussed once again in the tripartite council.

In April 1997, in a similar way, Finance Minister P. Medgyessy discussed the government's pension reform and the related draft legislation with the IRC and concluded an agreement on it with the workers and employers of the IRC.

It was an obvious follow-up by the Orbán Government in 1998, to dissolve – by one of its very first measures – the self-governing bodies of social insurance and put the funds under direct governmental control, causing serious damage to the positions of the social partners, primarily of MSZOSZ.

¹⁹ The first President of the Self-Government of Pension Insurance was S. Nagy – the President of MSZOSZ – and the first President of the Self-Government of Health Insurance was L. Sándor – the Vice-President of MSZOSZ.

7. The need for reconstruction

This tripartite machinery, in general, functioned well and made an invaluable contribution to the peaceful transformation of the country. It had also obvious weaknesses.

The system of tripartite institutions – the major pillars of which were established by the Conservative Antall Government (1990-94) and reinforced by the Socialist-Liberal Horn Government (1994-98) – promoted the national trade union confederations and employers' associations to the ranks of the national political actors. They could exercise considerable influence on the formulation and implementation of economic, income, wage, employment and social policies.

Their positions in the tripartite interest reconciliation bodies were complemented by those which they occupied in the Labour Market Fund Steering Committee and in the Self-Governments of Pension and Health Insurance, i.e. in the management of the large separate state funds. Their presence equated to political influence, social prestige and access to financial resources, out of which – partly and legally – the running costs of the organisations of interest representation could also be financed.

The possession of all these positions was reserved for and monopolized by those trade union confederations and employers' associations, which secured their participation in the Interest Reconciliation Council in 1990. As a result most of these organisations had strong vested interests in the conservation – and even in the expansion – of the then existing structures and were opposed to the introduction of such more democratic rules and procedures, as could have made the functioning of the institutions – primarily of the IRC – more effective and transparent.

The second Conservative Government's rude intervention into the tripartite machinery may cripple interest reconciliation for a period of time, but the destruction carried out is making space for much needed future reconstruction too.

Chapter III

TRADE UNIONS AND EMPLOYERS

The existence of strong and well-organised representation of workers and employers is a precondition of well-functioning labour relations at enterprise and sectoral (branch) levels and of effective tripartite practices at national level too.

In Hungary in the period after the political change it would have been wishful thinking to expect the appearance of strong and well-organised trade unions and employers' associations, as these organisations, in the new fresh atmosphere of freedom of association, suffered considerable losses in membership, became highly pluralized – almost to the verge of fragmentation – and it took years for the workers' organisations to consolidate their ranks, while the self-organisation and consolidation of employers' associations has not been completed yet, but is still going on even today. The spectrum of employers has been profoundly reshaped by the transformation of the economy, while the membership of the trade unions – despite the restructuring of employment and growing unemployment – has remained practically the same.

In the Interest Reconciliation Council in 1990-98 six national trade union confederations and nine national employers' associations participated. In the view of several experts these figures were too big for such a small country as Hungary. Taking into account what is needed for effective interest representation this statement is well-justified. Having in mind the number of those competing for attractive No 1 positions, it is certainly not.¹

1. Unions: “big” and “small” ones

The IRC's six trade union confederations were very different as to size, historical roots, membership, organisational structures, ability to exercise pressure, political affiliations etc.

- 1) Most of them had roots going back to the period before the political change – or even before the so called Communist era – which is why they were usually referred to as “traditional”, “old” or “old reformed” or – with somewhat pejorative overtones –

¹ In its Report titled Agenda 2000, the European Commission also warned: to ensure future effective social dialogue several existing organisations should opt for fusion to increase their membership support. Agenda 2000. Az Európai Bizottság véleménye Magyarország Európai Unióba történő jelentkezéséről. 59. old. It should also be noted: while in the economy, in politics – and in state administration – the transformation was accompanied by corresponding changes of the personnel in the top positions, the trade unions and employers' association were mostly exempt from such changes.

“successor” unions to SZOT², the National Council of Hungarian Trade Unions, the former monolithic national trade union confederation.

- 2) Several present trade union confederations were built primarily – but not exclusively – on the member organisations of the former SZOT, which ceased to exist in 1990. The three “big” ones – MSZOSZ (National Association of Hungarian Trade Unions), SZEZ (Trade Unions’ Cooperation Forum) and ASZSZ (Autonomous Trade Unions’ Confederation) – belonged to this grouping. Each of them boasted several hundred thousand members.

Other trade union confederations, to distinguish them from the former ones, were called “alternative”, “independent”, “newly formed” as they had no roots in the past political system, being established in the years of political change. These were the “small” ones: the League (the Democratic League of Independent Trade Unions) and the Workers Councils (MOSZ, National Association of Workers Councils), each reporting about one hundred thousand members.

The third “small” confederation, ÉSZT (Confederation of Professionals’ Unions) was a specific blend of “old” and “newly formed” unions in higher education and research.

If we look upon the League and the Workers Councils as the “heralds of a new order” in labour relations – as the Antall Government did – and we keep in mind the membership ratios, it is difficult to escape the conclusion that labour relations were not subject to such profound changes as the political arena or the national economy.

- 3) The earlier, close to 100%, level of unionisation considerably decreased, as political pressures towards joining the unions had ceased to exist and material benefits involved in membership – such as subsidised holidays in trade union resort houses – shrunk.

According to the most recent data (1996) trade unions had 1.7 million members, as reported by them, including pensioners and their non-paying membership, which meant roughly a 40% level of unionisation (if we take it there were 4 million employed in the country.) This rate – which is based on figures reported by the unions and does not take into account pensioners – was rather high by European standards.

Actual unionisation levels – if figures had been limited to active employees and paying members and been based on membership registers – were probably lower, but still remarkable.³

- 4) As for the coverage of workers by the trade union confederations, MSZOSZ is present throughout the business sector, and also has some member unions outside of it.

ASZSZ organises in the chemical industry and in the big public utility companies (electric energy, gas supply, transport etc).

² In Hungarian: Szakszervezetek Országos Tanácsa.

³ In some Western European countries – e.g. in France – unionisation is much lower, but unions are still in a position to maintain a wide system of collective agreements and – if necessary – exercise pressure by way of strikes, national demonstrations etc.

SZEF is the predominant trade union confederation in public services, including among others the large Teachers' Union and the similarly large Health Workers' Democratic Union.

The coverage of other confederations is limited to one or two branches of the national economy. The League has its strongest organisation in education and public transport. ÉSZT, as already mentioned, has its members in higher education and research. The Workers' Councils have sporadic footholds in the business sector.

Accordingly, the trade unions' organisational structures are mostly based on sectors and industries of the national economy and not so much on the trades. (With notable exceptions, such as the Locomotive Drivers' Union, which had a decisive role in the railway strikes.)

- 5) The trade unions' and workers' positions were considerably weakened by those fundamental economic processes which led to the decline of the employment rate and to the restructuring of employment, such as the break-up of the majority of the big state-owned companies, the development of small and medium-size enterprises, privatisation and the penetration of foreign direct investments, the expansion of atypical and flexible forms of employment etc.
- 6) In the period 1990-97 the number of those employed declined by 1.5 million in the national economy and the vast majority of job losses occurred in the business sector.

As a consequence, the trade unions mostly preserved their positions in public services and in those branches of the business sector which remained dominated by big enterprises, such as the chemical industry, transport, telecommunication, energy supply and other public utilities, while they suffered serious losses in other branches where employment shrunk – in mining, construction and in manufacturing in general.

Public utilities is the domain of the national economy where workers' organisation is coupled to a capacity to exercise pressure.

(It is easy to understand that a railway or electric energy strike may have consequences going far beyond the enterprises concerned, touching upon the functioning of the whole of the national economy and the life of society, while industrial action in a manufacturing company – even if there is a union to organise it – involves problems and costs only for the employer.)

Table 1: Trade union membership in Hungary (thousands)

	End of 1990	1991 Sept.	1993 May	1994 March	1995	1996*
ASZSZ (Autonomous Trade Unions' Confederation)	374.2	350	410	360	224 active + 60 pen- sioners	220
ÉSZT (Confederation of Professionals' Unions)	63.2	90	110	110		95
The "League" (Democratic League of Independent Trade Unions)	130	250	250	103		98
MSZOSZ (National Association of Hungarian Trade Unions)	2682.8	2000	1200	1200		720
MOSZ (National Association of Workers' Councils)	106	45	160	50-150		70
SZEF (Trade Unions' Co-operation Forum)	557.3	750	550	500	400	540
Solidarity (Solidarity Trade Union Confederation of Workers)	75	150	-			
KESZOSZ (National Confederation of Christian Social Trade Unions)			30			
Total	3,988.5	3,635	2,710	2,300 (approx.)		1,743

Source: Labour Research Institute. Data based on reports and estimates by the unions themselves.

- Based on answers to an EU questionnaire sent to the Hungarian government.

2. Conflicts around and among unions

In the early 1990s the Hungarian trade unions fell victim to both their internal conflicts – “the trade union war” – and outside political and ideological attacks.¹

- 1) The newly formed “alternative”, “independent” trade unions² – established in the period of political change – had the tacit or openly formulated goal of taking the place of the “old” trade unions – the successors to SZOT (National Council of Hungarian Trade Unions), which were supposed to lack – at least it was seen so by the new unions – both legitimacy and membership support.

Although this goal could not be achieved either by the League or the Workers’ Councils – or other new unions enjoying tacit governmental support and deservedly forgotten – it was beyond any doubt that the challenge to their survival and existence, had positive impacts on the old unions, promoting their internal reforms – their democratisation and decentralisation – which were opposed by an oversized trade union bureaucracy, which had to be radically slimmed too.

- 2) The first Conservative Government (1990-94) – and the parliament beyond it – looked upon the “old” trade unions as the “last bulwarks of Communism”, with an obvious political and ideological antipathy, which was understandable on their part. It questioned – joining the new “alternative” trade unions – the legitimacy and membership support of these workers’ organisations.
- 3) It was in this governmental attitude that in 1991 the two trade union laws³ were conceived and passed. These pieces of legislation, which were discriminative and directed against the old trade unions in the view of several union leaders, did endanger – intentionally or unintentionally – the functioning of the old unions, by blocking their financial resources. It was this legislation too, which imposed a renewal of the check-off authorisations by the membership for the paying of their fees upon the same unions. (The newly formed unions collected fees directly from their members.)

¹ For more details see: Héthy, L.: Under Pressure: Workers and trade unions in Hungary during the period of transformation 1989-1998. “Strengthening Trade Unions in Central and Eastern Europe” International Labour Organization Technical Cooperation Project. (RER/96/MO2/NET) Budapest, 1999.

² Beyond the six trade union confederations discussed in the present paper there existed two further ones for short periods of time without proven membership support: Szolidaritás – Szolidaritás Szakszervezeti Munkásszövetség (Solidarity – Solidarity Trade Union Confederation of Workers), borrowing its name from the famous Polish workers’ organisation, and KESZOSZ – Keresztényszociális Szakszervezetek Országos Szövetsége (National Confederation of Christian Social Trade Unions.) Solidarity was present in the IRC in 1990-92 too.

³ Act No XXVIII. of 1992 obliged the trade union confederations to report on their assets, it sequestered the assets and blocked the bank accounts of the unions and it empowered a provisional body, VIKSZ (Vagyont Ideiglenesen Kezelő Szervezet – Board for the Provisional Management of Assets) to take care of those assets until their final redistribution was to take place, within a one year period on the basis of the results of the envisaged trade union elections, and to be approved by the parliament. In the 4 member VIKSZ the big MSZOSZ had 1, the small League and the similarly small Workers’ Councils had 1 each, and the rest of the confederations – including the large SZEK and the strong ASZSZ – together had 1 seats. (1991. évi XXVIII. törvény. Magyar Közlöny. No. 80/1991. 17th July 1991.) The Acts No XXVIII. and No XXIX – prescribing the renewal of check-off authorizations – were jointly initiated by MPs on the governmental and opposition benches, by those of the governing MDF (Hungarian Democratic Forum) and the liberal SZDSZ (Alliance of Free Democrats) and FIDESZ (Alliance of Young Democrats, presently in Government). One of the initiators was Mr. Imre Palkovics, the President of Workers Councils and then an MP of the Hungarian Democratic Forum too. The Hungarian Socialist Party was strongly opposed to those laws.

These laws were followed by a series of new tests of representativeness, as prescribed by the parliament: by the elections to the Self-Governments of Pension and Health Insurance in 1993, to the Works Councils and Public Servants' Councils in 1993 (as well as in 1995 and in 1998).

The strong pressure exercised by the Antall Government on the "old" trade unions proved to be totally counterproductive in a political atmosphere becoming more and more hostile to it. Contrary to the government's intentions the "old" trade unions did not disappear and were not even further weakened, but gathered strength and public support and were built up from the "ruins" they could be seen as in 1990-91.

In addition MSZOSZ – the major opponent of the first Conservative Government – became predominant among the workers' organisations in the Interest Reconciliation Council and in other bodies.

- 4) The trade unions' capacity to have an effective and influential role in national politics was however strictly limited by their ability to cooperate with each other, to join their forces for action.

The 1990-91 confrontation between the "old" and newly formed unions – and the diverging interests and emotional animosity underlying it – continued to live on unfortunately under the surface in the coming years too – and were inflamed again and again.

In 1992 the conflicts caused by and focused on the 1991 trade union laws were put into hibernation by an – on the part of the "old" unions very generous – agreement among six trade union confederations on the (partial) redistribution of the trade unions' assets prior to any intervention by the parliament.

But these conflicts flared up again, when the issue of trade union representativeness was raised in 1996 in the Interest Reconciliation Council and in 1997, when the renewal of the Self-Governments of Pension and Health Insurance took place and the union confederations had to agree as to the distribution of the seats among their delegates. In 1996 the confederations were again divided into two groups – "the four", including the "big" ones, i.e. MSZOSZ, ASZSZ and SZEFG as well as the small ÉSZT – on the one side, and the League and the Workers' Councils together again on the other side. The events of 1997 caused serious tensions even in the relationship of MSZOSZ and SZEFG, which had had earlier cordial relationships.⁴

- 5) The trade unions have tried to define their relationship to politics – to the political parties, to the parliaments and governments – again and again.

⁴ In 1996/97 – after a change in its top leadership – the earlier tolerant and moderate MSZOSZ began to follow "hard line" policies towards the other confederations, trying perhaps to profit from the supposed or actual advantages for it of the Socialists' predominance in government. It imposed – supported or not hindered by the other big confederations – such internal rules on the workers' negotiating group in the Interest Reconciliation Council, as confirmed its predominating position and risked the future exclusion of the small confederations from the tripartite body. In 1997 it found even the IRC's settlement unsatisfactory for itself, and asked for a ratio in delegations to the new Self-Governments of Pension and Health Insurance based on the results achieved by it in the 1993 elections. This demand was challenged by SZEFG, the large public service confederation, which presumably had a much stronger membership at that time than MSZOSZ. As another outcome of the same conflict the Workers Councils did not delegate to the Self-Governments at all.

In 1990-94 it was the “alternative” newly formed League and the Workers’ Councils which were thought to have found allies in the Alliance of Free Democrats – then in opposition – and the governing Hungarian Democratic Forum respectively, while in 1994-98 and after the 1998 elections several leaders of MSZOSZ took seats in the parliamentary benches of the Hungarian Socialist Party.

These political alliances, in our view, generated suspicion and tensions both in the internal contacts of the trade unions and in their relations to the political parties, but failed to yield results in terms of governmental policies and measures. The impact of MSZOSZ on the policies of the Socialist-Liberal Horn Government – despite the presence of several of the confederation’s leaders in the Socialist fraction – could not be felt. (Nonetheless it has led to retaliation by the present second Conservative Orbán Government.)

Policies of keeping a distance from political parties – followed by ASZSZ and SZEZ – have been justified by the developments of the 1990s.

3. The colourful cavalcade of employers

In the Interest Reconciliation Council, in its employers’ negotiating group, nine employers’ associations had seats.

If it was said about the trade union confederations that they were very much different from each other, then it was even more so in the case of the employers’ associations.

Most of them existed already before the political change (1989-90) and some of them even before the Communist era. IPOSZ – constituted by the associations of craftsmen – has a long history, its origins going back to the end of the 19th century. MMSZ, the Hungarian Employers’ Association developed from the Hungarian Chamber of Economy, an association of big state-owned enterprises, functioning as a kind of state agency in most of its history before the political change. VOSZ (National Association of Entrepreneurs) is a true “product” of political and economic transformation: it was formed as the first association of private entrepreneurs active in the market.⁵

There are employers’ associations which unite “big employers” – i.e. big trading and manufacturing companies – in their ranks, such as MMSZ referred to above or MGYOSZ (National Association of Hungarian Manufacturers), which considers itself to be the direct successor to the predominant organisation of the employers of similar name of the pre-World War II period of capitalist Hungary.

Other organisations have mostly cooperatives as members, such as AFEOSZ (consumer cooperatives), MOSZ⁶ (agricultural cooperatives) and the Hungarian Industrial Association (industrial cooperatives).

Still others (IPOSZ, KISOSZ) have as their members individual self-employed entrepreneurs – e.g. craftsmen and retail traders – or small entrepreneurs assisted by their family or employing a couple of people.

⁵ That is why it was accepted as a member by IOE (International Organization of Employers), constituting the employers’ representation in the ILO, as early as 1991.

⁶ Not to be mistaken for the trade union confederation Workers’ Councils having the same acronym (MOSZ).

There are differences as to membership too: in some associations the members are individual enterprises (MGYOSZ), in another (MMSZ) they are the branch – so-called professional – organisations of enterprises (such as commercial, construction, pharmaceutical etc. undertakings). Some have their own clearly defined exclusive constituency, while in others – when members are big undertakings – cross-membership is frequent too (MMSZ, MGYOSZ, VOSZ).

The coverage of employers' associations is often limited to one branch of the national economy. (The Agrarian Employers' Association and MOSZ are limited e.g. to agriculture, AFEOSZ and KISOSZ to trade and catering.)

The IRC's employers' associations were not subject to any such tests of representativeness in the 1990s as those by which the trade unions had to prove their support by the workers. Their representatives were delegated to the Self-Governments of Pension and Social Insurance too (1993), without any tests of their support. That is why it is very difficult to describe – in the absence of any reliable information – their actual strength and relative influence. The figures we publish – at the end of the Chapter – were provided by the associations themselves and are not comparable.

4. "Small" employers' rule

While the trade unions were engaged in their internal struggles – and became willing or unwilling participants of political and ideological confrontations – the employers evinced a "family picture" of unity and harmony, at least for the outside world. Nonetheless, for the participants of tripartite practices, it was obvious that the peaceful surface covered grave tensions.⁷

- 1) The representation of employers in tripartite structures – according to common belief – is provided or at least dominated by the "big employers", i.e. by big companies, multinationals etc. Small and medium sized enterprises and especially micro undertakings are thought to be present under the protective umbrella of the big ones.⁸

In the Interest Reconciliation Council in the 1990s, on the contrary, the employers of the small and medium size enterprises assumed a predominant position.

While their presence in the tripartite council was certainly justified by their increased importance both in employment and in the performance of the national economy,⁹ the actual role and influence they assumed went far beyond it.

⁷ The employers of the IRC were reluctant to speak about and the other two negotiating groups to comment on the internal relations of the employers' negotiating group in public. An exception was an interview with Mr. L. Herczog, a government negotiator, for the economic weekly Figyelő, referring to the "close to internal crisis" of the employers' negotiating group (17th February 1994.)

⁸ In most countries the actual situation is like that: most governments – e.g. in Germany or Austria – look upon big employers as their primary partners, who have a predominant role also in the international representation of employers' interests (in the International Labour Organization or in the European Union.) In Hungary the belief of the existence of a similar set-up was confirmed by the mass media for several years: efforts were made to provide publicity for big employers commenting on issues of importance on the agenda of the Interest Reconciliation Council.

⁹ In 1998 from among the 4 million employed people 1 million were employed in micro undertakings (of below 10 people), 360 thousand in small undertakings (of 10-49 people) and about half a million in medium sized enterprises (of 50-249 people), i.e. SMEs had an almost 50% share in employment. These figures however

With some simplification we can risk the statement: while in the IRC the workers' negotiating group was dominated by the big trade union confederations, primarily by MSZOSZ, the employers' negotiating group was taken over by the organisations of small and medium sized enterprises and of the small entrepreneurs.

It is a fact of fundamental importance: without its recognition developments in the employers' negotiating group and in the IRC can hardly be understood and interpreted.

2) The major factors contributing to the predominance of the "small" were as follows:

- While in the European Union a clear distinction is made between the organisations representing employers (whose major feature is that they employ people) and "various interest groups" (for example small entrepreneurs, cooperatives and so forth), in Hungary all organisations representing business interests are accepted as employers' associations – in the absence of legal definitions for employers and their associations – if they declare themselves as such and include such functions in their statutes.
- The IRC's employers' negotiating group, from its establishment in 1990, was constituted by nine employers' associations.

Among them three represented 'big employers': MMSZ (Hungarian Employers Association), MGYOSZ (National Association of Hungarian Manufacturers) for industry and trade, and MOSZ (National Association of Agricultural Producers and Cooperatives).

The remaining six employers' associations – the Agrarian Employers' Association, AFEOSZ, IPOSZ, KISOSZ, the Hungarian Industrial Association and VOSZ¹⁰ – represented small and medium sized undertakings as well as individual entrepreneurs. These organisations – except for VOSZ – belonged to the European category of "various interest groups".

- The self-organisation and functioning of the employers' negotiating group was based on the principle of the equality of participants, which involved the possibility and actual practice that the "small employers" if united could always vote down the "big employers" in the decision making process based on majority voting. (In addition, the internal rules prescribed consensus in the formulation of the employers' standpoint as to the statutory minimum wage.)
- the IRC's big employers, in the period of economic transformation, were paralysed by the changes touching primarily upon the big enterprises – the dismantling and privatisation of most of the big state-owned companies – and by the collapse of their previous organisation of interest representation, the Hungarian Chamber of Economy.

While the "big employers" were engrossed in the painful and slow process of self-organisation, most of their counterparts on the "small employers" side could rely on

include about 1 million mostly self-employed individual entrepreneurs. On their role in labour relations see: Héthy, L.: SMEs and labour relations in Hungary. In Casale, G. (Ed.): Labour Relations in SMEs in Selected Central and Eastern European Countries, International Labour Organization, Geneva, 1999.

¹⁰ The position of VOSZ was changed by its reorganization in 1998, when several "big employers" joined it and took over its management.

structures and administrations based on several decades long traditions, such as the Hungarian Industrial Association, – the earlier OKISZ -, AFEOSZ, IPOSZ or KISOSZ.

With this background, these organisations undertook an active role in the IRC – and also in other tripartite structures – rallying competent and qualified negotiators. (Among the “big employers” MMSZ and MOSZ had such people.)

- The relationship of the IRC’s “big employers” was burdened by serious tensions. MMSZ (Hungarian Employers’ Association) and MGYOSZ (National Association of Hungarian Manufacturers) were strongly opposed to each other until 1998, when – under the constraint of conditions – they opted for fusion.

The appearance of STRATOSZ (National Association of Strategic and Public Utility Companies), a new employers’ association and its insisting on joining the IRC – from 1996 onwards – became the source of new grave tensions too.

Although it was true that the admittance of STRATOSZ into the IRC, in principle, could have contributed to the strengthening of the positions of “big employers” – as it united and represented the giant public utility companies – it was blocked for a long time – until 1999 – primarily by MMSZ, the Hungarian Employers’ Association.¹¹

The reason was their competition for the exclusive membership of the big public utility companies. MMSZ was outraged by the fact that STRATOSZ relied on and represented such big companies, which were supposed to be its members too. In fact, they were members of both of them, as cross-membership was generally accepted.

- The absence of new strong employer groupings – such as of the multinational companies, of the banks and insurance companies – from the IRC, i.e. from the employers’ associations representing big employers, was another indicator of the weakness of these organisations.
- 3) The “penetration” of the multinational companies into Hungary started in 1988 with the establishment of Tungsram-General Electric and has continued to the present day. In 1998, according to some estimates, they had one quarter share in the Hungarian GDP and one third share in exports.

For their absence from the Interest Reconciliation Council, lacking reliable and official declarations, we can offer only speculative explanations. They

- had no intention to expose themselves to the publicity following the IRC’s sittings and discussions;

¹¹ As the task of keeping STRATOSZ outside of the IRC had been accomplished by the Hungarian Employers’ Association anyway, for the “small employers” it was easy to turn their smiling and friendly face towards STRATOSZ – and they did so. The non-admittance of STRATOSZ was made especially uncomfortable for the IRC’s employers by the fact that CEEP (Centre Européen des Entreprises à Participation Publique) of the European Union had admitted it as a member in 1996, while the IRC’s “big employers” were limited to unsuccessful efforts to join UNICE, the European organisation uniting the industrial and commercial employers of the private sector. For them it took two years to get in as late as 1998.

- did not consider it acceptable for them to be one of the many members of the employers' negotiating group and have a position and rights equal with organisations uniting unimportant employers compared with the multinational companies;
- had more effective – informal or non-official – channels than the tripartite body to represent their views and interests, via their direct contacts with the government and – if needed – even with the prime minister;
- did not have an official organisation for the representation of their interests.¹²

As national level tripartite practices are based on the principles of freedom of association and freedom of bargaining, the multinational companies could by no means be blamed for their absence – whatever was their reason for it. Their indirect presence however was provided, as several multinational companies had joined Hungarian employers' associations. (Tungsram-General Electric for example was present in the Hungarian Employers' Association.)

- 4) The above developments and conditions led to the – in our view transitory – situation, that the “big employers”, despite their decisive importance in the national economy and in the employment of wage earners, were thrust into the background and kept there throughout the 1990s in the Interest Reconciliation Council and – consequently – in all the other institutions based on the representation of workers and employers.

It was especially outrageous in the Self-Governments of Pension and Health Insurance (1993-98), where one single big employer – like MAV (Hungarian State Railways) or MATAV (Hungarian Telecommunication) employing tens of thousands – made more of a financial contribution to the Pension and Health Insurance Funds, than a whole “employers' association” uniting self-employed individual entrepreneurs.

It was also diametrically opposed to its principles, that the Labour Market Fund Steering Committee was dominated by the small “employers”, while contributions to the Labour Market Fund were dependent on the number of wage earners and on their earnings and most wage earners were employed by the “big” employers who also paid the highest wages too. The self-employed did not make a contribution to the Fund at all.¹³

It was also a grotesque symptom of this state of affairs that the “big” employers were not granted participation at all in 1997 in the Joint Parity Consultative Committee, established on the basis of an agreement between the Hungarian government and the European Commission, with a mandate to comment on all social and economic issues of Hungary's accession to the European Union.

¹² The multinational companies, among others, were united by HAIC (Hungarian Association of International Companies), which was not – according to our knowledge – an officially registered organisation of interest representation, but rather an informal lobbying group.

¹³ To the Labour Market Fund Steering Committee the representatives of the employers were delegated by the following six organisations: AFEOSZ, IPOSZ, OKISZ, MMSZ, MOSZ and VOSZ. Among the six only MMSZ and – recently – VOSZ represented the “big” employers. Nevertheless, it was a sign of slow changes starting that STRATOSZ – with the support of the Hungarian State Railways in coalition with VOSZ – could attain seats in the renewed Self-Governments of Pension and Health Insurance in 1997, and the coalition of MMSZ and MGYOSZ were given slightly more seats than the rest of the employers' associations.

The Committee had 12 members, 6 of whom were delegated by the Economic and Social Council in Brussels and 6 by the Hungarian Interest Reconciliation Council. The former, as is widely known, unites trade unions, employers and “various interest groups”. Among the three “employers” delegated by the IRC there were no actual employers: they represented AFEOSZ, IPOSZ and MOSZ – all of which were organisations of “various interest groups” in the European terms.¹⁴ MMSZ (Hungarian Employers’ Association) – which has a good international background – made efforts to get in, but in vain.

- 5) Although the political sympathies of some of their leaders were widely known, the employers’ organisations had no direct affiliations to any political parties – unlike the trade unions (MSZOSZ) – and were looked upon by governments as politically neutral factors.

5. Parallel lines without intersection

- 1) The Interest Reconciliation Council was primarily established for interest reconciliation in labour issues, having its strongest rights in this field too: to set the national statutory minimum wage and to adopt recommendations for the growth of earnings in the business sector, to orient collective (wage) bargaining.¹⁵

To fulfil these functions the IRC was too wide and too narrow at the same time – as regards the representation of employers’ interests.

The IRC’s employers’ negotiating group had in its ranks – or rather it was dominated as has been described – by such employers’ associations as did not provide – or provided very limited – employment, as their members were self-employed individual entrepreneurs or cooperatives. These organisations and their membership had no part in collective bargaining and agreements and had no interface with the trade unions on enterprise or sectoral (branch) level.

At the same time, important employers, such as the multinational companies, the banks and insurance companies and public utility enterprises, were not represented in the IRC.¹⁶

As the participation of a wide and representative circle of employers was an important guarantee for the practical implementation of national wage agreements, in 1997 it was decided by the Horn Government to involve employers also from these fields in wage negotiations for 1998. As they were not present in the IRC, negotiations – or rather consultations – took place with both the Hungarian Association of International Companies (HAIC) and the Bank Association. In these meetings the issue of annual recommended earnings growth was discussed.

This gesture in itself – as an unintended consequence – caused fractures in the IRC’s exclusive authority to carry on national level wage negotiations for the business sector.

The composition of the IRC’s employers was mostly responsible also for the absence of lasting and effective cooperation between the employers and trade unions, both of them looking upon the government as their major “natural” negotiating partner. We have

¹⁴ In addition none of the “employers” representatives speak any language except Hungarian.

¹⁵ These functions were taken over by its successor the National Labour Council in 1999 too.

¹⁶ The problem remained unsolved by the establishment of the National Labour Council too, as the composition of the employers’ negotiating group – except for the admission of STRATOSZ – did not change.

information of only one informal agreement between the employers and unions, which was achieved in early 1997 and related to a current amendment of the Labour Code. It also proved to be a failure, as it was broken by the unions.¹⁷

- 2) The public service unions of the Interest Reconciliation Council of Budgetary Institutions – SZEF and ÉSZT, which were present also in the IRC – had the employers of the public services as their major negotiating partners.

In the IRCBI at least three actors were present in the capacity of employers: firstly, the public service institutions – which were financed from the state budget, the municipal budget or the Health Insurance Caisse – as legal employers; secondly, the municipal governments, which maintained and financed most of the public service institutions (schools, hospitals, cultural establishments); and finally, the government, which provided direct financing for certain institutions (universities, national cultural institutions, such as the National Museum, the National Széchenyi Library etc.)

The identity of the actual employer – as one of the labour relations partners – remained unsolved throughout the life cycle of IRCBI (1992-99) and still is.

On the one hand, the identity of the legal employer is clear. It is the public service institution the director of which exercises the employer's rights (hires and fires the employees etc.)

On the other hand, the legal employer – in the labour relations context – has very limited capacity (compared with the business sector employer), as the level of earnings and their growth are determined not so much by the employer, but by legislation and by those who provide the financial resources, by the government, the municipal governments and the Health Insurance Caisse.

The IRCBI's national wage negotiations on the annual growth of earnings in public services were gravely hindered by this unsolved problem.

The institutional employers – or rather the associations meant to represent them – participated in the negotiations in an observer capacity and had no mandate to vote or to conclude agreements.¹⁸

The municipal governments' associations had full rights in the body, but they had no mandate from their constituency to conclude agreements with a binding force for those

¹⁷ In a package deal the employers accepted a number of amendments favouring the trade unions and workers, while the trade unions approved another amendment eliminating a rule, which provided the workers 3 days sickness leave, without a doctor's certificate. This latter amendment – which was supported also by the government – was voted down by the fraction of the governing Hungarian Socialist Party in parliament, as a result of the trade unions' lobbying. Nevertheless, this amendment was passed later on – at the end of 1999 at the initiative of the second Conservative Government. This time the National Labour Council was not consulted about it at all.

¹⁸ The employer institutions' negotiating group included the following associations: Magyar Kulturális Szövetség (Hungarian Cultural Association), Magyar Kórházzövetség (Hungarian Hospital Association), Agrárkutató Intézmények Országos Szövetsége (National Association of Agrarian Research Institutions), Magyar Rektori Konferencia (Hungarian Conference of University Rectors), Főiskolai Főigazgatói Konferencia (High School General Directors' Conference), Művelődési Otthonok Szövetsége (Association of Cultural Centres).

whom they represented either.¹⁹ That is why they utilised their position in the IRCBI only to try to exercise pressure on the government to achieve budgetary concessions with reference to the growing wage costs in the public services.

The Health Insurance Caisse, in its turn, melted into the government's negotiating group.

Hence it was left after all for the public service unions and the government to negotiate, to agree and to find guarantees for the implementation of the agreements, in a context in which the implementation was dependent to a great extent on the employer institutions and the financing municipal governments.

- 3) When the Interest Reconciliation Council was established – in 1990 – it could be considered as an institution uniting the most important actors of the economy in its employers' and workers' negotiating groups and their participation served as a strong social foundation and justification for its functions in interest reconciliation in social and economic issues, beyond simply labour issues. The scale of interests represented by the participants had imposing dimensions indeed: workers (active ones and pensioners), unemployed, big and small employers, industrial, agricultural and consumer cooperatives, self-employed small entrepreneurs etc.

In the meantime Hungary's transformation continued at a dramatic speed: new and important economic and social actors appeared on the scene, including, to mention the most important ones:

- a) Local governments (in Budapest, in the counties and in the municipalities); it is beyond any doubt that not only do they have strong interests in, and are deeply concerned by, governmental economic and social policies, but their activities have an impact on the implementation of these policies.
- b) Despite this fact the local governments – except for their presence in the IRCBI which was limited to the labour relations of the public services – had no place in the institutions of social dialogue, concerning economic and social policies.
- c) Chambers of economy were established in 1995 – a Chamber of Industry and Commerce, a Chamber of Craftsmen and a Chamber of Agriculture – to function as public authorities (e.g. to issue entrepreneurial licenses) and to provide services for their members. As membership in them was mandatory, as prescribed by law, they united – unlike the employers' associations – the full spectrum of Hungarian employers, and – because of the obligatory membership fees – they disposed of considerable financial resources.

¹⁹ The municipal governments' negotiating group included the following associations: Települési Önkormányzatok Országos Szövetsége (National Association of Municipal Governments), Magyar Önkormányzatok Szövetsége (Association of Hungarian Municipal Governments), Megyei Jogú Városok Országos Szövetsége (National Association of County Seats), Megyei Önkormányzatok Országos Szövetsége (National Association of County Governments), a Kisvárosi Önkormányzatok Országos Érdekvédelmi Szövetsége (National Association for the Interest Representation of Small Town Governments), Községi Önkormányzatok Szövetsége (Association of Municipal Self-Governments), Magyar Falu-szövetség (Hungarian Village Association). As regards state administration Hungary is divided into 20 units: the capital (Budapest) and 19 counties. The local governments – in Budapest, in the counties and in the municipalities – have considerable autonomy. They are elected in every fourth year in general elections, separate from the parliamentary elections.

- d) Although the chambers were not allowed by law to assume functions of interest representation – and therefore could not substitute for the employers in tripartite interest reconciliation – they formulated their own well-justified claim to a part in social dialogue primarily in economic issues.
- e) Other important actors were those business (or employer) groupings, which – for this or that reason – had no place in the IRC (multinationals, banks and financial institutions, public utility companies, foreign investors etc.)
- f) As it was the Interest Reconciliation Council where social dialogue on the economy and economic policy took place, both the local governments and the chambers of economy tried at first to clarify their relationship to the IRC and afterwards to get into it; but these attempts met with the resistance of those already inside and failed.²⁰

In 1996 the Horn Government, being aware of the problem, also made cautious attempts to achieve a solution. On the one hand, it suggested the separation of the functions of interest reconciliation in labour and economic issues within the IRC. On the other hand, it proposed to widen the number of participants of economic consultations with such new actors as the local governments, the chambers of economy, the multinational companies etc. In this way the problem could have been solved, without touching upon the basically tripartite structure and principles of the IRC.

Nevertheless, the IRC's employers were outraged to hear even hints at possibilities involving what was thought to be the curtailment of their monopoly of engagement in economic policy consultations.

The Government once again circumvented the tripartite council. In 1997 the Minister of Finance invited the chambers of economy for economic policy consultations to the Economic Cabinet of the Government – the narrower body where the government's economic policy debates and decisions were prepared with the participation of the ministers in the field of the economy (including the Labour Minister), the President of MNB (Hungarian National Bank) etc.²¹

This gesture added to the prestige of the chambers of economy and detracted from that of the IRC's employers and of the IRC itself.

6. Bipartite labour relations

The solid foundations for national level tripartite practices – interest reconciliation – are provided by bipartite labour relations between the trade union(s) and employer(s) on the level of enterprises (in the business sector) or of institutions (in public services) and of the branches of the national economy.

²⁰ As the IRC was a tripartite institution, based on the principles of freedom of association and freedom of bargaining, it was easy to defeat these attempts, as neither the chambers of economy, nor the local governments met the criteria.

²¹ As the national associations of local governments had no mandate to represent their constituency, it made no sense for the government to invite them for similar consultations.

Collective contracts may include

- agreements between the two parties in issues which are not covered by labour law, such as the annual growth of earnings in the business organisations;
- agreements between the two parties in issues, in which only minima standards are set by legislation (minimum wage above the statutory minimum wage, the growth of earnings in public services, exceeding the minima of the salary scale set by legislation etc.)

In Hungary, since the way was opened up for free bargaining – i.e. legal prescriptions as to the contents of collective contracts and governmental regulations as to the growth of earnings had been eliminated – about one third of employees have been covered by enterprise level and about one tenth of employees by branch level (multi-employer) collective contracts.²² There has been only one example of a regional collective agreement.

This phenomenon can be explained by several interrelated – or complementary – conditions:

firstly, most of those working in micro, small, and medium sized enterprises do so in legal constructions outside the employment relationship – outside very often even labour law – and are lost to the trade unions;

secondly, as the trade unions lost their foothold in very many undertakings and the unions are entitled to carry on collective negotiations and conclude agreements, their absence prevents such procedures, even if the workers and employers were committed to them;

third, there exist no institutions either on branch (sectoral) or regional level to provide a framework for collective bargaining and agreements.

In Hungary, although the branch (sectoral) trade union organisations have traditionally been strong, there do not exist their counterparts, branch (sectoral) employers' organisations, which could function as their negotiating partners. Such organisations either do not exist at all, or if they do, they do not have the mandate from their constituency to engage in collective bargaining and to sign collective contracts on their behalf.²³

It was one of the priorities in the labour policies of the Socialist-Liberal Horn Government to promote collective bargaining and to reinforce the system of collective contracts. To this end it initiated several amendments in the Labour Code in 1995-97 and it tried to set up incentives to create motivation on the part of the employers in collective bargaining:

- as the flexibility of working time arrangements was high on the employers' agenda, the 1995 amendment of the Labour Code opened up a way for it in the framework of enterprise and sectoral level (multi-employer) collective agreements, in the hope that employers

²² This ratio corresponds roughly to ratios in other Central and Eastern European countries, but is very low by European standards. In Western Europe the about 70% coverage can be attributed to branch (sectoral) agreements. This coverage is high even in those countries where the level of unionisation is very low, e.g. in France.

²³ MMSZ (Hungarian Employers' Association), in its general policies and declarations, has been strongly committed to the promotion of collective bargaining and contracts, but its member organisations – the branch or "professional" federations of enterprises – were reluctant – with a few exceptions – to take definite steps in this direction.

would be more motivated to achieve them (as for the amendment and the related conflicts, see Chapter V);

- consolidated labour relations at the enterprise level, for which an obvious indicator was the existence of collective agreements, were included among the criteria which had to be met by the employers to receive subsidies supporting employment from the Labour Market Fund (1997);
- the national registration of collective agreements started, on the basis of an IRC agreement (1996) to provide an information base for possible future governmental assistance and intervention;
- a Labour Mediation and Arbitration Service was set up – likewise on the basis of an IRC agreement (1996) – for the settlement of collective labour disputes, mostly related to collective bargaining.

In 1997 a meeting between the Prime Minister and the top leaders of the IRC's workers and employers approved a joint programme as to action to be taken in this field.

Collective contracts were achieved in public services too. Nevertheless, these agreements had much less impact on the growth of earnings – because of the strict limits of the employer institutions' autonomous decision-making – than in the business sector.

The growth of earnings in public services depended little on local labour relations, on the results achieved by the unions in their negotiations with the employers, but rather more on interventions from outside of local labour relations, on the generosity of some well-to-do local governments, on the increase of minima salaries set in the wage scale by the parliament, and on “pumping” money from the central state budget into the budget of the local governments, earmarked for salary increases etc.

7. The actors' misery

To proceed with war three preconditions are needed: money, money and money – as was remarked by Montecuccoli, an Austrian general of the 17th century wars against Turkey. To maintain peace by way of negotiations – and tripartite practices can be interpreted in this way – material resources are needed too, on the part of both the government and the social partners.

While the government had at its disposal all the means and resources provided by the state budget – including a qualified and generously staffed state administration – the social partners were faced with the task of securing resources themselves to maintain their own functioning and also to support their role in the tripartite institutions.

To be in a position to negotiate effectively, both the trade union confederations and employers' associations had to employ capable negotiators and experts – in an ideal case groups of specialised experts. When exercise of pressure was unavoidable – strike action was declared – the trade unions had to mobilise their financial resources to provide for the living of the participants of the strike – and their families – for the period in which no wages were paid by the employer. To organise demonstrations in the capital, the membership from the countryside had to be transported and professional security guards hired, as protection against provocations etc.

To our knowledge, there exist no reliable data and studies, providing precise and thorough-going pictures of the financial situation of the individual national trade union confederations and employers' associations; that is why we limit ourselves to listing certain developments and conditions, which might give some insight, even if they do not make up for the lack of more systematic information.

- 1) The separation of the state and the organisations of interest representation, as a well-justified measure towards a pluralistic democratic system, stripped both the trade unions and the employers' associations of those subsidies from the state budget, which earlier they had enjoyed mostly as a compensation for the fulfilment of state functions.

(In Hungary SZOT – the National Council of Trade Unions – took care of subsidised holidays for the workers and supervised – for a long period – labour safety inspection too and the Hungarian Chamber of Economy was charged with the international representation of the state-owned enterprises.)

- 2) Those organisations of interest representation, which had existed already before the political change in 1989-90, had assets which were partly owned by the state, partly by the organisations themselves, and of which they disposed.

The sharp conflicts around the re-distribution of trade union assets, the intervention by the Antall Government as well as the Horn Government's delay in restoring to the unions their earlier – in the 1970s – nationalised property, put these organisations into a difficult situation or – at least – did not help them in their efforts to consolidate their financial situation.

The newly formed unions – the League and the Workers' Councils – did not have any assets or other financial resources until an agreement among the six trade union confederations (1992) provided them with some SZOT premises and they could rely on limited international assistance too.

The rest of the newly formed organisations of interest representation – the newly formed VOSZ, MGYOSZ and STRATOSZ among the employers, the associations of local governments, of employer institutions in public services etc – were in an identical situation.

- 3) The trade unions' membership declined and the number of non-paying members increased, due to the growing difficulties the workers themselves faced in the context of real wage drops and mass unemployment, radically reducing trade union revenues from membership fees.

In particular those branch trade union federations lost most of their revenues, whose decline in membership – following the shrinking of employment – was especially marked, as referred to earlier.

The national confederations' financial situation was further aggravated by the fact, that in the new decentralised and democratised structures the bulk of revenues from membership fees was concentrated in the branch federations and the local organisations.

- 4) The establishment of the chambers of economy (1995) had a negative impact on the employers' associations' revenues from membership fees.

As the chambers of economy and the employers' associations' membership overlapped, the mandatory membership and related fees in the chambers led many entrepreneurs –

especially small entrepreneurs who were very sensitive to costs – to withdraw their voluntary financial support from the employers’ organisations.

The Conservative Orbán Government decided to abolish mandatory membership fees of the chambers (1999), undermining their secure financial positions too. Nevertheless, it can hardly be expected that this measure would result in more revenues for the employers’ associations.

- 5) Some trade unions’ financial positions were reinforced by the regulation – introduced by an amendment of the Labour Code in the period of the Socialist-Liberal Government – which prescribed an obligatory financial compensation by the employer for the unused hours of trade union activists allowed for trade union activities by law.

For some unions it was an important source of revenues (e.g. in the Hungarian State Railways and some other big companies with a large number of employees and union members).

The Conservative Orbán Government – by another amendment of the Labour Code (1999) – returned to the earlier practice, when such compensation was voluntary.

Nevertheless, some big companies are likely to maintain their practices of subsidising their unions, of providing union presidents – and presidents of Works Councils – with managerial salaries etc.

- 6) The positions they occupied in the Self-Governments of Pension and Health Insurance made complementary legal resources available for the national trade union confederations and employers’ associations to provide remuneration for their key people – functionaries and experts.

As the Self-Governments were dissolved and the Pension and Health Insurance Funds put under direct governmental control by the second Conservative Government (1998), the organisations of interest representation lost these additional resources.

Still their positions in the Labour Market Fund Steering Committee make it possible to use some limited resources from this Fund – earmarked for example to help their preparation for Hungary’s accession to the European Union and for similar activities.

- 7) The government – the central state budget – covers the running costs of the Interest Reconciliation Council, of its Secretariat and of the related Labour Mediation and Arbitration Service.²⁴

Participation in the tripartite institutions and practices – while providing the unions and employers with certain additional means – put their expert capacities and financial resources under serious pressure too. The governments were aware of the “misery” of the social partners and listened to their complaints with patience, but proved to be rather “tight-fisted” throughout the 1990s. It often was a conscious political attitude – as the right-wing conservative governments tended to look upon the trade unions not only as their

²⁴ It was the Antall Government, which undertook – with some reluctance – to cover the running costs of the Secretariat, including those of the employment and salaries of the Workers’ and Employers’ Secretaries as civil servants, within the staff of the Ministry of Labour. (The Secretariat is made up of the secretaries of the three negotiating groups and their administrative assistants).

counterparts at the negotiating table, but rather as their political opponents or even political enemies. It could be interpreted also as a general caution about helping those on the other sides of the table into “excessively strong” positions.

What should be decided by the governments and parliaments sooner or later is: whether social dialogue – or tripartite interest reconciliation – is to be considered as a “private undertaking” by “private actors” promoting “private interests” or an undertaking in the service of public interest with the participation of public actors committed to the service of such interests.

If it is an important public activity, complementing and supporting that of the government and of the parliament – as was proved by its more than ten years history in the critical period of Hungary’s political and economic transformation – then it should be treated like that.

In this case it seems essential to provide for – among other things – the solid and sufficient public financing of all those institutions and all those activities – including the activities of the trade unions, employers and other actors – which qualify as parts of tripartite interest reconciliation or social dialogue. The practical solution of this problem should be civilised and in line with the internationally accepted principles and standards.

THE TRADE UNION CONFEDERATIONS ²⁵

1) Autonomous Trade Unions’ Confederation (ASZSZ)

It primarily represents the interests of chemical and public utility workers. Via its 21 member organisations, it has 220,000 trade union members.

2) Confederation of Professionals’ Unions (ÉSZT)

It is active in the public sector (higher education and research). Via its 10 member organisations, it has 95,000 trade union members.

3) National Association of Hungarian Trade Unions (MSZOSZ)

It operates in both the public and the private sectors, but primarily in the business sector. Via its 72 member organisations, there are 720,000 trade union members.

4) National Association of Workers’ Councils (MOSZ)

It operates in the business sector. It has 240 local and 20 branch organisations; and 70,000 trade union members.

5) Democratic League of Independent Trade Unions, the “League”

It represents the interests of its members in both sectors. Via its 127 member organisations, it has 98,000 trade union members.

6) Trade Unions’ Cooperation Forum (SZEF)

It serves to protect the interests of public servants and civil servants working in publicly financed institutions. It has 530,000 trade union members.

²⁵ Source: European Union questionnaire.

THE EMPLOYERS' ORGANISATIONS

1) Agrarian Employers' Association

It represents major agricultural corporations, state farms, the National Association of Farmers and agricultural research and education (5-600 organisations with legal entity and several thousand private farmers).

2) National Association of General Consumer Co-operatives (AFEOSZ)

It represents, primarily, the area of those operating in agricultural product purchasing and retail trade (285 co-operatives with 800,000 members and 45,000 employees).

3) National Association of Industrial Corporations (IPOSZ)

It represents the interests of nearly 120,000 small craftsmen engaged in about 300 types of activities. Currently, the number of its member organisations is 300.

4) National Association of Traders and Caterers (KISOSZ)

It is the employers' organisation of private retailers and caterers (its membership comprises private entrepreneurs, about 20,000 people).

5) National Association of Hungarian Manufacturers (MGYOSZ) ²⁶

It represents, primarily, large private enterprises (it has about 2,200 member companies).

6) Hungarian Industrial Association (OKISZ – Magyar Iparszövetség)

It is the employers' organisation of medium-sized, and, in part, smaller and larger businesses (approximately three thousand companies and three hundred thousand employees). It is a member of the International Co-operatives' Association (ICA), and the European Medium and Small Enterprise Union (EMSU).

7) Hungarian Employers' Association (MMSZ) ²⁶

It represents, via branch (trade) and territorial member associations, 5-6,000 business organisations which employ a total of nearly 1.1 million persons.

8) National Association of Agricultural Producers and Cooperatives (MOSZ)

It is the employers' association of 1,500 co-operatives and about 300 companies operating in agriculture and related activities (400,000 active and 570,000 retired members of co-operatives).

9) National Association of Entrepreneurs (VOSZ)

It represents businesses based on private capital (100,000 entrepreneurs). In 1991, as the representative of Hungarian employers, it was accepted as the first Eastern European member of the International Organizations of Employers (IOE).

10) The National Association of Strategic and Public Utility Companies (STRATOSZ)

It unites partly state-owned, partly privately owned big public utility companies. Until 1998 it was not a member of the employers' side of the Interest Reconciliation Council. In 1996 it was accepted as a member of Centre Européen des Entreprises à Participation Publique (CEEP), which operates in conjunction with the European Union.

²⁶ These two organizations united in 1998.

Chapter IV

NEGOTIATED WAGE POLICIES

Hungary had a pioneer role in Central and Eastern Europe in pulling down wage regulation by the state and in introducing negotiated wage policies.¹

Wage regulations – in the business sector – were replaced by a three level system of wage negotiations: on national, sectoral (branch) and enterprise levels. The institutional framework for national wage bargaining was provided by the National Council for the Reconciliation of Interests (1988-90) and by its successors, the Interest Reconciliation Council (1990-99) and the National Labour Council (since 1999).² Sectoral (branch) and enterprise level wage bargaining was part of collective bargaining.

At the same time in the budgetary institutions – including public services – the growth of earnings remained under the control of the government – as in most other countries – and was regulated by legislation. Nonetheless, wage growth in public services also became a subject of pre-legislative tripartite negotiations for a couple of years (1996-98). At the present day we have several years experience as to the functioning – the strong points and weaknesses – of this wage fixing mechanism.

1. Theoretical and practical considerations

Negotiated wage policies, gradually introduced, were based on both theoretical and practical considerations, on efforts to promote market oriented economic reforms and to open up space for the more effective functioning of the then predominantly state owned enterprises.

Negotiated wage policies – and the functions of the Interest Reconciliation Council (IRC) in wage determination – were based on the principles of Wage Reform worked out and initiated in 1987/88:³

¹ Negotiated wage policies appeared as an alternative to tax-based income policies in the region in the 1990s. In most countries tax-based income policies – wage regulations by the state – were maintained until the mid 1990s: their function was to keep wage growth under strict control by the state. Wage growth beyond the permitted rate was penalised by punitive taxes. (For which the best known example was “popievek” in Poland.) See: Vaughan-Whitehead, D.: Wage Policy Reforms in Central and Eastern Europe. A First Assessment. (1990-96) In: Vaughan-Whitehead, D. (Ed.) Paying the Price. The Wage Crisis in Central and Eastern Europe. MacMillan Press (London) – St. Martin’s Press (New York), 1998.

² As these bodies performed identical functions, in the following analysis we make no distinction between them and simply refer to the Interest Reconciliation Council (IRC).

³ Héthy et al.: A bérpolitika és a bérrendszer reformjának koncepciója. (Scenario for the reform of wage policies and wage system). Munkaügyi Szemle, Budapest, 1988. No 4.

The administrative wage determination by the state cannot be maintained in the (emerging) market-economy; 2) its role should be taken over partly by the (emerging) labour market, partly by multilevel collective bargaining and agreements (on enterprise and sectoral level); 3) collective (wage) agreements are to counterbalance and make socially acceptable the impact of the labour market; 4) social (tripartite) control over wage processes is also to substitute for control by the state in the transitory period until genuine employers in greater numbers appear on the scene. (The assumption was that in state-owned enterprises, their management were much less determined to resist the workers' demands for higher wages than genuine employers, i.e. private enterprises.)

The gradual elimination of wage determination by the state was made necessary by the very needs of the effective functioning of the business organisations and the economy:

1) because of state regulations wages became a scarce resource, a "labelled" and uninterchangeable item in costs: their special status led to waste in other resources and to the under-utilisation of labour too; 2) enterprises were put into a position, in which very often they were unable to attract, keep and motivate labour (central control over wages led to distorted wage differentials and structures); 3) central wage regulations paralysed the development of genuine collective bargaining and agreements: in their framework free bargaining was substituted by governmental decisions; 4) central wage regulations were "socially insensitive": they stripped enterprises of the possibility to prevent and solve wage conflicts on their own, such conflicts tended to move upward and appear as resistance to governmental policies.

Summing up: wages – in the context of administrative wage determination – were neither rational, nor equitable, i.e. the wage system could not meet those basic requirements which it should in any social market economy.

“Grave social and political tensions and conflicts are generated by current processes in the economy. On the one hand, one can react to them by concentrating on the solution of the essential economic problems, according to one's best knowledge. In today's wage policies such a reaction is the central non-differentiated administrative limitation over the growth of wages, which is an obvious emergency measure, involving negative consequences (the decline of economic performance, the increase of social tensions). On the other hand, there exists an alternative: while one does not forget the important target of macro-economic stabilisation, one pays proper attention to the settlement of the conflicts of social and political interests, to working out compromises. To this end negotiated wage policies based on the reconciliation of interests may prove to be beneficial. I think, in the present economic – as well as social and political – context they promise more success.”⁴

Both employers and trade unions had exercised considerable pressure on the government already in the 1980s to get rid of wage regulation. The employers thought that it was a major obstacle to the cost-effective utilisation of labour, while trade unions looked upon it as a barrier to the justified demand by the workers for wage increases. The government, on the contrary, had no confidence in the state owned enterprises resisting the pressure for wage increases. It also had fears that uncontrolled wage growth would add to inflation and would lead to unjustified wage differentials.

⁴ Héthy, L.: Bérmeghatározás érdekegyeztetéssel. (Wage determination via interest reconciliation.) Népszabadság, 30th May 1988. The author of the present book headed the Wage Reform Expert Committee (1987-88) which laid down the foundations for negotiated wage policies in Hungary.

The abolition of wage regulations after all was made possible by the financial difficulties of the state enterprises and – as referred to earlier – by the strict and progressive personal income taxation (introduced in 1988), that proved to be a more powerful instrument of income policy than any administrative control over wages.

2. The deregulation of wage determination

The Interest Reconciliation Council was established in 1988 to carry out the liberalisation – and eventually the elimination – of wage determination by the state.

In its first period the IRC's activities were limited to wage determination: its most important decision making right was to set the national guaranteed minimum wage and to carry on wage negotiations concerning wage growth in the competitive sphere (business organisations). When it was created the government transferred a part of its own authority over wage determination to the body. The legal basis for it was provided by the Parliament, when the Labour Code (1992) – among other things – obliged the government to establish the statutory minimum wage on the basis of agreements in the IRC and to carry on wage negotiations in the IRC. In 1990 the body's authority was extended to consultation concerning a large sphere of economic and social policy formulation and legislation.

The Labour Code's text is as follows: The government shall mediate through the IRC between representative bodies of employees and employers at the national level concerning issues of national importance, affecting labour relations and employment relationships: 1) Subject to the agreement of the IRC, the government shall a) establish, in the interests of employment, rules at variance with those provided for under this Act, concerning termination for economic reasons of employment affecting large groups of employees, b) decide on matters concerning the mandatory minimum wage and labour inspection, c) present proposals for the determination of statutory holidays and maximum daily working hours. 2) The government shall initiate national wage negotiations through the IRC. 3) An agreement made by the Interest Reconciliation Council shall, upon the recommendation of the Interest Reconciliation Council, be proclaimed as legislation by the Minister of Labour. 4) Subject to the agreement of the IRC, the Minister of Labour may establish an employment skills system.⁵

The IRC was created (1988) as an institution of national level wage bargaining. It had – as referred to above – two major functions: firstly, setting guaranteed minimum wages, secondly, setting averages as well as maximum and minimum limits for enterprise level gross earnings growth.⁶ As to the guaranteed minimum wage the IRC was entitled to take decisions, while as to enterprise level earnings increases it could make recommendations.

For a period (1988-92) the government retained its right to issue wage regulations to limit wage increases, following the practices – in a sense – of the past system of central planning. Administrative wage determination – among other things at the intervention of the IRC – was gradually loosened up (1989-91), suspended (1992) and abolished (in 1993).

⁵ Munkatörvénykönyv, 1992. évi XXII. Törvény (Labour Code: Act XXII. of 1992) Magyar Közlöny, Budapest, 4th May 1992 (In English Labour Law Documents, ILO, Geneva 1993/1.)

⁶ It was never laid down in regulation that the IRC's negotiations should take place in terms of nominal gross earnings growth and it took years for the partners to arrive at this common understanding. This situation in itself opened up the possibility for local wage negotiations to diverge from IRC recommendations.

In public services administrative wage determination by the state continued to prevail. The IRC's functions in this field in the first half of the 1990s were limited to the occasional discussion of wage policy measures.⁷ Pre-legislative wage negotiations in public services (1996-98) took place in a separate institution, in the Interest Reconciliation Council for Budgetary Institutions (IRCB) – which started its career as a committee of the IRC, but became independent of it in 1992. (See Chapter II.)

The deregulation of wage determination in the business sector had the following steps:

- 1) In 1988 direct administrative wage regulation was applied (permitting only 2% nominal wage increase in the national economy).⁸
- 2) In 1989-91 wage determination became much more flexible: in the new model (and in its annual variants) there existed no direct (administrative) limits to wage increases. Enterprises already in 1989 were free to raise wages beyond the recommended level, if they were in a position to pay the duties on them (i.e. 50% general entrepreneurial "profit" tax and 43% social security duty); enterprises were even exempt from taxation if their wage increase did not exceed 50% of their value added growth. Enterprises with a certain share of foreign capital and small undertakings were also exempt from this regulation.
- 3) In 1992, by an agreement in the IRC in 1991, wage regulation by the government was "suspended". An average 23% nominal wage growth was envisaged for 1992, taking into account a forecasted 21% rise of consumer prices. The body recommended 13% as minimum and 28% as maximum for enterprises. It was also fixed that organisations surpassing the recommended 28% would be obliged to pay taxes only in the case that the annual average nominal wage growth went beyond the negotiated level in the national economy. An obligation was also laid down to build up – in addition to enterprise level – middle (sectoral, industry) level collective bargaining and contracts to enforce the provisions of the national agreement. In 1992 progress in this direction – not without difficulties – took place.⁹
- 4) In 1993 on the basis of an agreement in the IRC in November 1992, even the "suspended" administrative wage determination was completely abolished.

Thus the most prominent obstacle to free bargaining ceased to exist.

⁷ In November 1994 an IRC agreement related to the draft act on the 1995 state budget e.g. covered salary growth in public services. It was the last time that the IRC negotiated public service salaries.

⁸ The model of 1988 was exceptional in Hungary. Since 1968 Hungary had applied so called indirect models, in which enterprise level wage increases (to a permitted level) were linked with a "success indicator" (the growth of profits, value added etc.). Beyond the permitted level they were severely taxed (such taxes were of punitive nature sometimes amounting to 5-600%). For details see: Héthy, L.: Structural Adjustment and Changes in Income Distribution in the 1980s in Hungary. International Employment Policies. Working Paper. No 32. ILO, Geneva 1992.

⁹ Berki, E (1992): A bérszabályozástól a béralkuig. Bér-megállapodások 1992 első felében. (From wage regulation to wage bargaining. Wage agreements in the first half of 1992). Munkaügyi Szemle, Budapest, No 11. (November) 21-28 p.

3. Negotiated wage policies in the business sector

In the new situation it was left for IRC's recommendations and related sectoral and enterprise level collective agreements to function as an exclusive instrument to set negotiated limits for wage growth (substituting the earlier administrative and fiscal barriers). The tripartite body did adopt recommendations each year in the period after 1992, except for 1995, when it could not – in the context of macro economic stabilisation – achieve an agreement.

The much debated question is: how effectively did this negotiated control function? To what extent was it able to serve those economic policy targets, which had earlier been supported by wage regulation? Some experts argue that it was successful while others underline its weaknesses.

As for the actual figures of gross earnings growth, consumer price indices (inflation) and the growth of net real earnings – as well as IRC recommendations – the picture is as follows:

- 1) State control over wage growth was suspended and eliminated after two years (1990-91) of radical decline in real net earnings (amounting to 5-7%). In the period of deregulation – in 1992 and in 1993 – further 1.4% and 3.9% real earnings drops took place in the business organisations. It was only 1994 – the year of the parliamentary elections – which brought a considerable – 7% – increase for the workers. It was followed by the real earning drop records of the 1990s – 12.2% in 1995 and 5.4% in 1996 – due to the macro economic stabilisation measures.

The IRC's wage negotiations and agreements did not prevent the decline of real earnings which was made necessary by the decline of the performance of the economy – of the GDP – in the first part of the 1990s and by the stabilisation efforts (in 1995-96).

- 2) The IRC's recommendations for earnings growth were adopted according to the forecast consumer price indices: the (average) recommendations were tacitly aimed – at least the trade unions thought so – at the maintenance of the real value of net earnings. The IRC agreements, in a certain sense, could be looked upon as tools for negotiated (recommended) wage indexation, although the latter term was never used.

Sectoral (branch) and enterprise level collective (wage) bargaining and agreements followed the IRC's recommendations.

Real earning drops did not originate from the IRC agreements, but rather from the actual growth of consumer prices – which consistently surpassed governmental forecasts serving as a basis for the negotiations – and from personal income taxation – which was levied on the nominal increase of earnings as if it were a real increase.

- 3) The average growth of gross earnings did surpass however related IRC recommendations in each year of the period: it fluctuated around the maximum limits set by the IRC. In 1993 and 1994 it went slightly beyond even that limit.

The explanation can be found in the loss of confidence on the part of both unions and employers in the reliability of the governmental forecasts of inflation, as their experience year by year was that the actual growth rate of consumer prices exceeded governmental forecasts.

Table No 2: Gross earnings in business organisations and IRC recommendations in Hungary, 1990-98

	Gross Earnings Growth		Consumer Price Indices		IRC Recommendations for Gross Earnings Growth			Collective (Wage) Agreements based on IRC Recommendations	
	National Economy	Business Organisations	Actual	Forecasted= Basis for IRC Recommn.	Average	Minimum	Maximum	Sectoral	Enterprise
	previous year = 100		previous year = 100		previous year = 100			% of labour force covered	

1990	128.6	127.0	128.9	-	-	-	-	-	-
1991	130.0	129.3	135.0	-	-	-	-	-	-
1992	125.1	126.6	123.0	120.0-125.0	123.0	113.0	128.0	42	27
1993	121.9	125.1	122.5	114.0-117.0	118.0	110.0-113.0	125.0	13	32
1994	124.7	123.4	118.8	116.0-122.0	117.0-119.0	113.0-115.0	121.0-123.0	11.0	29.5
1995	116.8	119.7	128.1	120.0	no IRC agreement			5.0	27.8
1996	120.4	123.2	123.6	120.0	119.5	113.0	124.0	12.4	31.6
1997	122.3	121.8	118.3	117-119	117.5	114.0	122.0	12.5	30.6
1998	118.6	118.9	114.3	113-114	-	113.5	116.0		
1999				110-111	-	112.0	115.0		

Source: Central Statistical Office and Ministry of Labour

It was in 1997 for the first time that actual inflation remained within the limit of the governmental forecast. Nonetheless the actual average growth of gross earnings once again surpassed the IRC's recommendation for the maximum. One year was not sufficient to restore the confidence of the social partners.

L. Akar, political state secretary of the Ministry of Finance of the Socialist Liberal Government (1994-98) reported: "'Before 1995-96 a tacit understanding existed in the IRC between the government and the social partners that losses in real earnings, caused by actual inflation exceeding governmental forecasts, would be compensated by an actual gross earning growth, exceeding the IRC's recommendations. The underestimation of the growth of consumer prices was an integral part of the government's – the Finance Ministry's – tactics in these years, as it made it possible to keep negotiated earnings growth – or at least the related IRC recommendations – at a modest low level. While such tactics momentarily proved to be beneficial in the business sector, they resulted in serious tensions in the public services, where the gross earnings growth (and legal regulations on it) were also based on governmental forecasts of inflation and it was difficult to mobilise resources in the course of the year for the compensation of losses. This scenario proved to be a failure also in the business sector in 1995-96, when the measures of the macro economic stabilisation Bokros-package – such as the devaluation of the national currency and the introduction of excess duties on imports – resulted in an unexpectedly high inflation rate. After 1995-96 the gradual reduction of the inflation rate became a priority in the government's economic policies and it was realised that reliable forecasts for the growth of consumer prices could have an important role in "'cooling down" expectations concerning inflation. That is why in 1997 and 1998 governmental forecasts proved to be reliable. The second Conservative Government, when it prepared its budget for 2000, returned to the tactics of the first half of the 1990s."'¹⁰

The question is why did business organisations – apart from the loss of confidence in the governmental forecasts of inflation – go beyond IRC's recommendations? There are two further possible explanations.

Firstly, sectoral and enterprise level collective (wage) agreements, which had the function of transmitting IRC's recommendations, covered only the minority of business organisations and could not fulfil effectively their "transmission" function.

Secondly, a number of (mostly state-owned) enterprises considered maximum limits set by the IRC as the major point of orientation and their wage growth did in fact often go beyond the limits set in the collective contracts too.

In the early 1990s many such enterprises were eager to prevent and avoid labour conflicts even at the expense of wage costs. State employers – i.e. the management of state-owned companies – proved to be less determined to resist workers' demands for higher wages than "genuine" private employers.

The multinational companies, which appeared on the scene in great numbers in the second part of the 1990s, mostly followed the philosophy of wage-indexation to maintain the satisfaction of their labour force. At the depressed level of Hungarian wages and labour costs they could easily afford it.

¹⁰ Akar, L.: A bértárgyalások és az inflációs előrejelzés. (Wage negotiations and governmental forecasts for inflation), Budapest, December 1999. The paper was prepared for the Hungarian edition of the present book.

In 1994 a considerable growth of real earnings – primarily in public services, but also in business organisations – took place, contributing to the upsetting of the balances of the national economy too.

It could be attributed to a) a considerable growth of earnings in public services (prescribed by earlier legislation and promoted or at least allowed by the previous government on the eve of general elections); b) the (mostly state owned) business organisations following up wage growth in public services; and c) the government's soft attitude at the IRC wage negotiations setting the recommendations for 1994¹¹ i.e. the year of general elections.

The real wage growth of 1994, as we see it, was the product of an exceptional situation in the economy and in politics and it would be a mistake to look upon it as an evidence of the failure or breakdown of tripartite negotiated control over wage determination in the competitive sphere. That is why we think that governmental intervention was also exceptional.

In 1995 the Horn government decided to impose strict limits on the growth of earnings in the business organisations (as well as of public services) to achieve a radical cut in real wages in the national economy.

It should be emphasised that these efforts did not have the aim of correcting possible malfunctions of negotiated control over wage growth but of serving the targets of macro economic stabilisation as conceived in the given philosophy of economic policy. To serve such targets negotiated control over wages proved to be an inadequate instrument: the IRC – on the basis of the government's proposals – could not achieve an agreement and adopt any recommendations for wage growth for 1995. What the government could do and did – as the owner of a great number of still state enterprises – was to set strict limits for wage growth in this sector: it allowed an average 10% wage growth.¹² Even stricter limits were imposed upon public services. Private business organisations were exempt of such limits but there was a good prospect that they would follow and a real earnings drop of 12.2% occurred.

Although negotiated wage policies have been repeatedly criticised – among others by the international financial organisations, the World Bank and the IMF – they have not led to a sky-rocketing growth of earnings. On the contrary, they have accomplished even the difficult task of the reduction of real earnings – despite the resistance (or tacit acceptance?) by the trade unions. There was one year – 1995 – when they did not work.

If radical macro economic stabilisation – often labelled as "shock therapy" after its Polish prototype – and governmental efforts to openly cut real earnings are on the agenda, negotiated wage policies do not work. It is unlikely that such tripartite agreements could be achieved, which admittedly open up the way for radical reductions in real wages and standards of living, as such measures are naturally resisted by the trade unions (and often by the employers too). It is not because of the "weakness" of negotiated wage policies, it is

¹¹ The Government proposed a wide bracket for the forecasted inflation of 1994 opening up a wide space for the IRC's recommendations as well: high recommendations for the maximum limit tended to push up average earnings growth, as it had usually fluctuated around the maximum points in the previous years too.

¹² The government did not issue wage regulations in the earlier sense of the term. The Minister of Finance, in a letter, instructed the state's representatives in the boards (assemblies) of the fully or partly state-owned companies to follow up the limits set by the government.

rather because of their inadequacy: negotiated wage policies do not fit restrictive macro economic stabilisation.

After this critical year the Interest Reconciliation Council continued to adopt recommendations for the growth of gross earnings in the business sector – for 1996, 1997 and 1998.

4. The process of national wage negotiations

On the basis of almost ten years' experience, negotiated wage policies – and the functioning of the related wage-fixing machinery – can be evaluated as follows:

- 1) The new wage-fixing machinery proved to be much more flexible than earlier wage regulations in harmonising the differing – and often conflicting – interests of the government, the unions and employers as to the growth of gross earnings and the statutory minimum wage. At the same time it did not prevent the government from pursuing its income and economic policy targets in this field.
- 2) National level wage negotiations proved to be inadequate – beyond the control of the growth of earnings and the minimum wage – to influence wage structures and to support wage policies in such efforts.

At the beginning of the 1990s attempts were made to create a wage-tariff system for the business sector, but they met with the resistance of the employers and were discontinued.

It was an obvious weakness of negotiated wage policies too – related to wage negotiations and agreements in the IRC and IRCBI – that they could not maintain sound and justified wage differentials between the business sector and public services, nor prevent the increase of the gap and the lagging behind of public services. (It was only in 1997/98 that efforts were made by the Horn government to improve the relative positions of public services.)

- 3) No guarantees existed to promote the implementation of the IRC's wage agreements, except for that on the statutory minimum wage.

It is to be emphasised once again, that the IRC adopted recommendations as to the growth of gross earnings in the business sector, which – by their nature – were not and could be mandatory. Recommendations however can be implemented if the signatory national trade union confederations and employers' associations consider it their duty – and are in a position to do so – to oblige their member organisations to follow the national wage agreements. It is difficult to tell whether such efforts were made or the internal regulations of these organisations worked in this direction or not.

Nonetheless it is a fact, that even in 1998 there were several local trade union organisations – belonging to the trade union confederations in the IRC – which formulated wage demands exceeding the maximum recommendation by the IRC and threatened strikes if they were not met.

While the trade union confederations treated IRC wage agreements in such a “flexible” way, they sharply criticised the government when it made efforts – without applying administrative measures – to limit the growth of earnings at the state owned or partly state-owned companies (as in 1995.)

- 4) The institutional framework provided by IRC for national wage negotiations was too wide and too narrow at the same time as to its participants (as pointed out in Chapter II.)

As wage agreements achieved by the IRC covered the business organisations, and had no relevance for public services, public service unions having seats in the IRC and a part in its wage negotiations, – such as the Trade Unions' Cooperation Forum (SZEF) and the Confederation of Professionals' Unions (ÉSZT) – were not directly interested in their outcome.

A similar direct interest was lacking on the part of a number of “employer” associations, the membership of which was constituted by self-employed small entrepreneurs or cooperatives, having no or a very limited number of employees, which had no trade unions and were not part of collective (wage) bargaining and agreements, for which IRC recommendations were meant to provide orientation.

Consequently, national level tripartite wage negotiations – as to the growth of gross earnings – took place with the participation of a great number of such organisations of interest representation, as were not concerned – for differing reasons – with their outcome.

Those organisations had a direct interest – at least in principle – in the IRC recommendations, which were part of sectoral (branch) and enterprise level collective (wage) bargaining, such as – on the workers' side – the National Association of Hungarian Trade Unions (MSZOSZ), the Autonomous Trade Unions' Confederation (ASZSZ) and other business sector unions, and – on the employers' side – the Hungarian Employers' Association (MMSZ) or the National Association of Hungarian Manufacturers (MGYOSZ).

It was a weakness of the IRC wage negotiations at the same time, that important new groupings of employers, such as the big public utility companies, the multinational companies as well as the financial sector (banks and insurance companies) were missing from them. (See Chapter III.)

The situation was entirely different as to the IRC's negotiations on the growth of the guaranteed (statutory) minimum wage. It touched upon the membership of all of the employers' associations and trade union confederations, without any exception. In this case the IRC's agreement was not a recommendation, but a decision, taking the form of a legal regulation. (The IRC agreement was automatically transformed into a governmental decree.)

It was mandatory, it had to be followed in the whole of the national economy and it served also a basis for the social security contributions and personal income taxation of many small entrepreneurs. Its implementation was followed up by the job inspection authority and violations were punished by fines.

It was only the public service unions which lost their interest in the statutory minimum wage for one exceptional year (1997), when the lowest minimum salary in the public servants' salary scale exceeded the national minimum wage.

- 5) The IRC's recommendations for the growth of gross earnings in the business sector were of vital importance for the big business sector trade union confederations, primarily MSZOSZ and ASZSZ.

It was true that their dividends for the workers, as they were recommendations, were uncertain. Nonetheless, they were looked upon as important points of reference for the sectoral (branch) trade union federations and the enterprise trade unions in their negotiations with the employers, who were willing to accept them in most cases too. As in the business sector there existed very few trade unions in strong bargaining positions, with the exception of the big public utility companies, which could achieve results on their own in the bargaining process, the IRC recommendations compensated – at least partly – for their inability to exercise pressure.

That is why these trade union confederations were often engaged in desperate and lasting efforts to push up IRC recommendations as much as possible. (In the negotiations for 1997 they were able to achieve an increase in the governmental proposal for the average growth of gross earnings from 17% to 17.5%, and in the negotiations for 1998 they accepted the government's proposal for maximum growth of 16% after long debates.)

- 6) The employers – even those engaged in the collective (wage) bargaining process – were much less motivated to achieve the IRC's recommendations:
 - a) the employers, in general, were reluctant to accept any limitations as to the liberty of their decision-making – even if these limitations were as “soft” as the IRC's recommendations;
 - b) while certain employers – such as the Hungarian Employers' Association (MMSZ) – were committed to the idea of collective labour relations and stood up for collective bargaining, for cooperation with the trade unions, others seemed to prefer individual labour relations, human resource management techniques etc. – which was their free choice;
 - c) important employers pursued wage policies – regardless of any recommendations by the IRC and any pressure by the trade unions – by which they could maintain the satisfaction of their workers. (As has been mentioned, several multinational companies followed policies of wage indexation in the mid 1990s, that is they increased the level of earnings at the rate of inflation);
 - d) the depressed level of Hungarian wages and labour costs – by European standards – made it possible for the employers to be “generous”.

In addition, as was said earlier, most of the employers' associations in the IRC were not concerned at all with the IRC's recommendations.

There was however a strong common interest uniting all employers to limit the growth of the guaranteed minimum wage.

- 7) The governments in the IRC's wage negotiations were motivated by a double interest.

Firstly, the government wanted the IRC to send such “signals” to the employers and trade unions as to the growth of earnings, as were in line with its economic policy efforts, or at least did not contradict or undermine them.

In 1997 and 1998, e.g., it was important for the government to achieve such IRC recommendations as supported its efforts to preserve the balances of the economy, to reduce the rate of inflation, to decrease – or at least not to increase – the gap between business sector and public service earnings.

Secondly, for the previous governments it was important – for purely political considerations – to achieve the usual annual wage agreement in the IRC, as they were born anew every year – with the exception of 1995 – and the success or failure of the national wage negotiations was looked upon by the public and the mass media – whether justifiably or unjustifiably – as an indicator of the relationship between the government and the social partners.

The Socialist Liberal Horn Government was committed to the achievement of agreements to such an extent, that it almost made it vulnerable, undermining its otherwise strong bargaining positions.

- 8) The success of wage negotiations in the IRC was dependent on two parties in the end: on the big trade union confederations of the business sector and on the government.¹³

To achieve a national wage agreement two interrelated tasks had to be accomplished:

firstly, the big trade union confederations – primarily MSZOSZ and ASZSZ – and the government had to come to terms with each other. The interests of these two parties partly coincided – both were in favour of the increase of the statutory minimum wage – and partly were conflicting, as the workers' organisations tried to push up the recommendations for the growth of earnings as much as possible, while the government did its best to keep them at a moderate level;

secondly, the trade unions and the government had to secure the support of a number of employers' associations, which were hardly motivated or were indifferent as to the IRC's recommendations for earnings growth and mostly were opposed to increases of the statutory minimum wage.

To harmonise the diverging and conflicting interests of a great number of participants was mostly impossible within the narrow framework of wage negotiations, which is why the scope of the talks was extended to other income policy issues, such as taxes, duties levied on earnings, social benefits etc. In this way, the IRC's wage negotiations became embedded – directly or indirectly – in a wider framework of income policy negotiations and the wage agreements achieved were based on income policy agreements, including concessions for all or most of the participants.¹⁴ (Income policy agreements will be discussed in more detail in Chapter V.)

In the course of wage negotiations the government had to manoeuvre between the trade unions and the employers. It had to secure the cooperation and support of both parties and to prevent their possible separate bilateral agreement, putting the government into a difficult situation.

¹³ After the second Conservative government took office (1998) the government's commitment to achieve wage agreements in the IRC came to an end. The IRC adopted recommendations for the growth of gross earnings in the business sector for 1999, but it – its successor – failed to do so for 2000.

¹⁴ The scope of the negotiations was extended sometimes even beyond the limits of income policy, covering issues of labour legislation etc. See Chapter V.

For the trade unions it was relatively easy to negotiate the employers' backing for high IRC recommendations for the growth of gross earnings, as most of the employers were not concerned by these recommendations. The "price" they had to pay was self-restraint concerning the increase of the guaranteed minimum wage. In 1997 the two parties struck an informal bilateral deal: the unions accepted a moderate increase in the minimum wage (17,000 HUF), while the employers supported the unions' demand for an IRC recommendation of 17.5% average growth of gross earnings in the business sector. In the open public sitting of the IRC the government's representatives tried to upset this deal, to reduce the recommendation to 17%, while suggesting a higher increase in the minimum wage (17,500 HUF). This time it was the trade unions – the President of MSZOSZ – who argued against (!) the higher minimum wage, to the great amusement of the journalists in the room. In the end the government accepted the joint proposal of the unions and employers.

To avoid the repetition of a similar situation for 1998, the government hastened to urge a higher rate growth of the statutory minimum wage in due time, which the trade unions had to support and which was accepted by the employers too, in exchange for reductions in their contributions to the Labour Market Fund. In this context the unions had no other choice than to accept the government's proposal as to the IRC's recommendations on earnings growth.

- 9) While in a consolidated market economy the major parties in national wage negotiations – where they exist – are the national trade union confederations and employers' associations of the business sector, in Hungary – as has been described – this scenario could not be followed in the 1990s as yet.

In a sensitive situation for the national economy, where the tasks of macro economic stabilisation were almost permanently on the agenda and the employers' associations were far from being consolidated, the government had a decisive role in the national wage negotiations of the IRC. Its importance was underlined also by the rules of these talks. It was the government's duty to put forward proposals for the recommendation on the maximum and average growth of gross earnings in the business sector, while the trade unions' privilege was to formulate proposals for the recommendation of the minimum growth and for the increase of the statutory minimum wage.

In the future the employers are to have a more important role in the national wage negotiations, taking over most of those functions which were performed by the government in the 1990s. After all, it is not so much the government's, but rather the employers' interest and task to set solid barriers to wage demands by the unions in the business sector. To be in a position to do so, the IRC's employers' negotiating group has to be reinforced by those powerful new groups of employers, who are faced with the unions in the various sectors (branches) of the national economy and at the companies. The regulations of the national wage negotiations are also to be adapted to this set-up.

5. Wages, prices and productivity

Wage negotiations in the IRC were focused on gross earnings growth, with a view to the forecasted rate of inflation and the expected performance of the national economy. Neither of the latter two was directly involved in the talks, and no direct linkage was established between gross earnings growth and inflation or economic performance.

If there were attempts in this direction they were limited to the establishment of possible linkage between earnings and inflation, to develop talks on nominal gross earnings into talks on real net earnings.¹⁵ The social-minded trade union arguments always referred to the growing costs of living, while the governments – and employers – referred to the limits set by the performance of the national economy.

This latter argument became less and less justified in the 1990s: after 1991/92 productivity started to grow rapidly, thus further real wage cuts were not so much justified by failing economic performance, but rather by the efforts of macro economic stabilisation.

The parallel growth of earnings and consumer prices in the 1990s tended to confirm the firm conviction among economists of their close interrelationship.

It was argued that wage negotiations, in setting recommendations for wage growth, make earnings follow inflation figures, and the growth of gross earnings (and related expectations of inflation) makes a major contribution to the growth of consumer prices.

On the basis of this assumption in 1994 a proposal¹⁶ was made to try to achieve a "price and wage agreement" with the social partners, i.e. with the trade unions and employers' associations. The central tenet of this proposed agreement was to set the growth of earnings on a level below that of forecasted inflation and in this way, by down-scaling expectations in regard to the growth of consumer prices, to achieve a lower rate of inflation and thus to establish the linkage of the growth of gross earnings and consumer prices on a lower level.

While the idea itself was attractive, the proposal was not followed up by action. Its failure was primarily due to the reluctance of the trade unions. The workers' organisations rejected any such self-constraint over earnings growth, as it risked – if it had no positive impact on inflation – radical cuts in real earnings. Their reluctance and suspicion were proved to be well founded by the events of 1995. In the absence of self constraint on the part of the trade unions – and of an IRC agreement – the government imposed strict limits on earnings growth in the state sector: despite these limits and the moderate growth of earnings there was high and increasing inflation (amounting to 26-30%) resulting in a 12.2% cut in the real value of earnings.¹⁷

The idea of a price and wage agreement emerged in Autumn 1995 again. The proposal was made by MSZOSZ and supported by Finance Minister Bokros. But in the above context the idea was stillborn.

¹⁵ The governments of the 1990s were very justifiably unwilling to negotiate in terms of real net earnings, except for two occasions in the term of the Socialist Liberal Horn Government. Firstly, Finance Minister Bokros initiated talks on real earnings in 1995 – on the basis of motivations unknown to me – which led to no results. Secondly, the Three Year Agreement of Public Servants (1996) fixed the envisaged growth rate of real earnings for the coming period. In this case the obvious political motivation was to calm down the workers of public services, who suffered grave losses in their real earnings in 1995. The Orbán Government also proposed negotiations on net real earnings for the IRC in 1999, but it intended to establish a linkage between them and GDP growth.

¹⁶ The proposal – or rather idea – emerged in early 1994: it was promoted by L. Urbán, a politician of the Alliance of Young Democrats (FIDESZ) – then in opposition. Then it was pushed into the background by the Horn Government's proposal to negotiate a much broader Social and Economic Agreement.

¹⁷ Public services suffered an even sharper decline in the real value of their earnings.

In 1999 a proposal was made by the Orbán Government to the Interest Reconciliation Council – before it was dissolved – to conclude a three year agreement, defining the real net earnings growth rate at 50% of that of the GDP.

This proposal – disregarding the figure indicated, which could not be discussed – was rational and favourable for the social partners. After many years of artificial separation of the growth of earnings and economic performance, it was targeted at the establishment of such a linkage, providing predictability and stability for real net earnings growth. In addition, as sustainable economic growth restarted in 1997 in the country, the proposal involved solid prospects and no risks for the workers. It is a pity that no negotiations were started about the technical details, as the government withdrew its proposal prior to any such talks.

The Government's proposal was part of a package of three initiatives. The second was aimed at the amendment of the Labour Code, which the trade unions strongly opposed, while the third one referred to the transformation of the Interest Reconciliation Council into a National Labour Council and the establishment of other institutions of social dialogue – which was resisted by both the unions and employers. In hard negotiations, burdened by serious tensions, the social partners and the government managed to find compromises on the issues of the Labour Code and social dialogue and it was proposed by the social partners that further negotiations take place as to the three year real earnings agreement.¹⁸

The Government, after a one day sitting of the IRC, declared the negotiations unsuccessful and decided to proceed on its own with its original initiatives as to the amendment of the Labour Code – which had been submitted earlier to the parliament – and with the “reform” of the institutions of social dialogue. The IRC was dissolved and its functions in national wage negotiations bestowed on the new National Labour Council. (For these developments see Chapter VIII.)

The social partners did, with some dissatisfied murmurs, accept the new state of affairs.

6. Pre-legislative wage negotiations in public services

In the budgetary sector¹⁹ the government – as it maintained and financed directly or indirectly most institutions – had a much stronger responsibility for and much firmer control over the growth of earnings, than in the business organisations.

The budgetary sector, or rather the public services, had the Interest Reconciliation Council of Budgetary Institutions (IRCB) as an institution for negotiations as to earnings growth and financing, with the participation of the government, the public service unions, the local municipal governments and the employer institutions.

Earnings in the budgetary sector are regulated by legislation. For the largest group of its employees – those of public services – salaries are established by the Act on the Legal Status of Public Servants. The legal text contains the job categories (indicating requirements of qualification and experience) and a related salary scale (indicating minima salaries for each

¹⁸ According to experts, the social partners within the IRC were not supporters of longer term agreements in general, because their existence would have limited the possibilities for their regular public political appearance. If it was so, this attitude had a role also in the failure of the grand Social and Economic Agreement, promoted by the Horn Government (1995).

¹⁹ In Hungary close to one fourth of the 3.7 employed people have their jobs in the budgetary sector.

job category). Supplements to salaries are also described by the law: they are partly mandatory – like minima salaries – and partly optional.

Although the salary system is determined by legislation, there is potential for national wage negotiations at least in two respects. Firstly, job categories and the salary scale (minima salaries, supplements) can be discussed with those concerned, in the framework of pre-legislative consultations, i.e. to prepare the legislative action. Secondly, as the law fixes only minima salaries, there is a space for negotiations on the actual level and growth of salaries, on national level and on the level of institutions (hospitals, schools) or of municipal governments. (The law does not permit sectoral or branch level collective bargaining and agreements.)

Wage negotiations in public services in Hungary were an extremely complicated process, because of the great number of those who acted as maintainers and employers.

Without any doubt, the government had the most influential part, as a) it was in a position to initiate and pass legislation on the job categories and the salary scale, b) it prepared and controlled the central state budget, which was the major – direct and indirect – source of financing of public service salaries (earnings) and their growth. Nonetheless, the government's impact on financing was limited, as

- the majority of the public service institutions (such as primary and secondary schools, cultural institutions) are maintained and financed by the local governments (which, in their turn, rely also on subsidies from the central state budget);
- other public service institutions (e.g. hospitals) are maintained by the local governments, but financed by the Health Insurance Caisse (which was under the control of the Self-Government of Health Insurance in 1993-98);
- all of the budgetary institutions have a certain financial autonomy and many have revenues of their own too;
- there exists only a limited number of public service institutions, which are under the direct supervision of and financed directly by the government.

In the national wage negotiations of public services the trade unions' major concern was to achieve as high as possible an envisaged rate of gross earnings and to secure proper – legal and financial – guarantees for the implementation of the agreement. In practice, however, no satisfactory guarantees existed.

The government could provide legal and partial financial guarantees. As the employers had to follow the Act on the Legal Status of Public Servants, the increase of the minima salaries in its scale brought about a certain growth in earnings, but its extent was dependent on the existing salary levels and their relation to the minima. The government, being in control of the central state budget out of which the local governments received normative subsidies, could make sure that the latter had enough money for the envisaged increase of the earnings of public servants in their field, but could not instruct them as to how and on what to spend their money. It could also transfer money from the state budget to the municipal governments, earmarked for salary increases, as an exceptional and emergency measure.

In the IRCBI, neither the representatives of the local governments, nor those of the employer institutions, had a mandate from their constituency to undertake definite obligations as to the growth of public service earnings and their financing. While in 1996 they signed the IRCBI's wage agreement, they refused to do so for the wage agreements for 1997 and 1998, but it bothered nobody in the given context. At the same time, the representatives of local governments and the employer institutions tried to profit from the national wage negotiations and exercise pressure on the government to create more favourable conditions for them in the central state budget.

The annual wage agreement for 1996 achieved in the IRCBI – and the bilateral wage agreements between the government and the public service unions for 1997 and 1998 – had a limited impact on the actual growth of gross earnings of public servants.

The envisaged growth rates of gross earnings fixed by these agreements functioned like the recommendations of the IRC: it was left for the local governments, the Health Insurance Caisse and the institutions themselves to decide – beyond the mandatory increase of the minima salaries – to what extent they could and would improve the situation of the teachers, doctors, nurses etc. employed by them. The notable difference compared with the IRC's recommendations was that actual earnings growth in public services tended to lag behind the rate fixed in the national wage agreement.

The implementation of the first wage agreement (1996) was faced with especially serious difficulties, because of the austere conditions of economic stabilisation.

The agreement envisaged 19.5% growth in gross earnings in public services – the rate being identical with the IRC's recommendation for the business sector. The actual growth, however, stayed at the level of 14-15%, despite the government's emergency interventions. Under the pressure of strike threats and actual demonstrations, the government had to convene the IRCBI in September and, in December, conclude supplementary agreements with the disappointed trade unions, on the basis of which about 10 billion HUF was pumped over from the central state budget to the local governments, earmarked for salaries. The explanation lay in the non-payment by the local governments and in the modest increase of the minima salaries which did not oblige them to mobilise their resources.

Learning the lessons, the wage agreement between the government and the trade unions for 1997 came to be supported by much stronger legal guarantees – i.e. a higher rate increase of the minima salaries – in a more favourable economic context. It envisaged 17% growth of gross earnings, which was not only achieved, but surpassed, offering some compensation for the public services for the unintended real earnings drop of the previous year.

The annual public service wage agreements in 1996-98 relied on the Three Year Agreement of Public Servants, achieved by the Horn Government in March 1996 in the IRCBI. This contract envisaged zero real earnings growth for 1997 and a slight 1-2% increase for 1998, as well the reduction of the gap between the wage positions of business organisations and public service institutions.

P. Kiss, Minister of Labour (1995-98) and now Acting Vice-President of the Hungarian Socialist Party, saw the developments leading to the Three Year Agreement of Public Servants as follows: "The budgetary institutions employed several hundred thousands of employees, who suffered the most severe difficulties of the 1990s – as to the reduction of their

real earnings – while at the same time their activities were decisive for the general morale of society, as they provided services for it. If the government wanted to achieve a positive turn in the process of social dialogue, as it did, public services offered the most promising – and the most difficult – domain for a possible breakthrough, as was recognised by the good political instincts of the Prime Minister. When at the end of 1995 he declared that the government was ready to negotiate and conclude a three year agreement in public services, most of the essential objective economic conditions were missing, but the subjective conditions were favourable. There was the political will to elevate social dialogue – started as early as 1988 – to a European level. The trade unions were motivated, felt the opening opportunity and were determined to achieve results after the for them unsuccessful year and a half. The Ministry of Labour had such negotiators as were not only competent as to public services, but also enjoyed the confidence of the partners. The major obstacle to overcome was the trade unions' well-founded precondition to achieving a wage agreement for 1996, guaranteeing at least the maintenance of the real value of earnings for 1996. The negotiations started in January 1996, when the annual state budget had already been approved. Still the agreement was concluded and the way opened up for the Three Year Agreement too. It was struck at the end of March and signed also by the Prime Minister. In 1997-98 IRCBI became an important institution of social dialogue. In my view, the major indicator of a government's commitment to social dialogue is its relationship to the employees and trade unions of those institutions where it is the direct or indirect employer, i.e. in the budgetary institutions. As for the "commitment" of the present government, it is revealing that it eliminated those institutions in the budgetary sector, which provide for it the possibility of talking to the employees and unions. The positive developments towards a European type social dialogue, which started with the breakthrough in 1996, seem to be discontinued, at least for the time being."²⁰

The second Conservative Orbán Government, after it took office in Summer 1998, failed to convene the IRCBI for more than one year, had no negotiations with its partners on 1999 earnings and did not initiate the raising of the salary scale in public services, and finally – in October 1999 – decided to dissolve the IRCBI.

7. Minimum wage ²¹

The guaranteed (statutory) minimum wage has been repeatedly increased by the IRC since 1988. In certain years (1990-91) its growth rate surpassed, while in other years (1992-96) it lagged behind that of gross earnings. As a result – although the net minimum wage has had a more favourable development than net average wages – the losses in its real value have been more remarkable than those of average earnings. The gap between the guaranteed minimum wage and the minimum costs of living has kept increasing.

²⁰ The text is based on a conversation between Mr. Kiss and the author in November 1999.

²¹ For the region see: Vaughan-Whitehead, D.: Minimum Wage in Central and Eastern Europe: Slippage of the Anchor. ILO-CEET Reports No 1. Oct. 1993.

Table No 3: Statutory minimum wages in Hungary, 1988-99

Introduction (date)	Statutory minimum wage (HUF)
1 January 1988	3,000
1 March 1989	3,700
1 October 1989	4,000
1 February 1990	4,800
1 September 1990	5,600
1 December 1990	5,800
1 April 1991	7,000
1 January 1992	8,000
1 February 1993	9,000
1 February 1994	10,500
1 February 1995	12,200
1 January 1996	14,500
1 January 1997	17,000
1 January 1998	19,500
1 January 1999	22,500

Source: Ministry of Labour and Ministry of Economy

The raising of minimum wages has been continuously urged by the labour unions with reference to the increasing living costs (regardless of its possible adverse effects on employment). Employers have opposed it, because of its impact on wage and production costs, primarily in the traditionally low wage industries and agriculture. In the early 1990s they made efforts – in vain – to push down such decisions to enterprise level collective bargaining, where they were in a much stronger position vis-à-vis their employees, than on national level.²² The government also made efforts to limit minimum wage growth for most of the 1990s, partly because it was the (indirect) employer of some traditionally low-wage public services, partly in view of the general considerations of its restrictive economic and wage policies aimed at stabilisation.

²² Garzó, L. (1991): Kollektív alku a munkahelyen. (Collective bargaining at the enterprise). Munkaügyi Szemle, Budapest, No 6. (June)

Table No 4: Minimum wages, earnings, and minimum costs of living in Hungary, 1989-1996

	1989	1990	1991	1992	1993	1994	1995	1996
Minimum wages (monthly average/capita) HUF gross net	3,658 3,294	5,017 4,515	6,700 5,989	8,000 7,122	8,917 7,847	10,376 9,178	12,058 10,671	14,308 12,376
Earnings (monthly average/capita) HUF gross net	10,571 8,165	13,446 10,108	17,934 12,948	22,294 15,628	27,178 18,362	33,289 22,992	38,900 25,891	46,837 30,262
Minimum costs of living (Monthly average/capita) HUF	3,760	5,349	8,612	11,183	9,785 13,023	11,915	13,900	
Minimum wage as percentage of earnings (average/capita) gross net	34.6 40.3	37.3 44.7	37.4 46.3	35.9 45.6	32.8 42.7	31.2 39.9	31.0 41.2	30.5 40.9
Net minimum wages as percentage of minimum costs of living	87.6	84.4	83.8	82.7	70.2	93.8* 70.5*	89.6	89.0

Source: Central Statistical Office, Ministry of Labour

***Note:** The method for calculating minimum costs of living was changed in 1994. The above two figures for 1994 are based on the new and on the old methods.

A major argument of labour unions for raising minimum wages was the role they allegedly played in tax evasion. It was said that many employers (mostly small entrepreneurs) fixed minimum wages in the work contracts with their employees while they paid the rest “cash in hand”, to reduce the taxes levied on gross earnings (44% contribution to the social security funds, about 6% contribution to the employment funds).

That is why MSZOSZ (National Association of Hungarian Trade Unions) repeatedly suggested the introduction of a three grade minimum wage i.e. the first grade (on the level of the uniform national minimum wage) for unskilled labour, a second grade for skilled labour and a third one for professionals. This proposal has not been supported by most of the other participants of tripartite negotiations. The Ministry of Labour thought that the basic functions attributed to it justified the existence of one uniform statutory minimum wage in the whole of the national economy.

There are a few examples however of sectoral or enterprise level collective (wage) agreements setting higher minimum wages than the statutory one: it is to be expected that collective agreements will go beyond the statutory minimum standards.

The guaranteed minimum wage in the early 1990s was linked with minimum unemployment benefits: an IRC agreement (in November 1992) separated them.

To deal with the problem of low wage industries and agriculture, IRC agreements on the minimum wage usually contained special clauses for them (such as the delayed introduction of the new minimum wage).

8. Results and limits

It is difficult to draw far-reaching conclusions from the seven-eight year long experience of negotiated wage policies (1992-99). Nonetheless, the experience of this period does not seem to support any extreme conclusions.

On one hand, there was no sign that negotiated control over wages would launch an unjustified and uncontrollable wage growth in business organisations.

On the other hand, this control proved to be – as could be expected – fiscally less effective – or socially more sensitive – than possible alternative bureaucratic fiscal methods.

Negotiated wage policies have helped to ease the well-known negative consequences of administrative wage determination by the state, which led to its elimination in 1992. They adapted more flexibly to the requirements of the effective functioning of business organisations. They did not block, however, wage growth at unprofitable state owned enterprises. In such cases growing wage costs could often be covered only by the consumption of assets.

Genuine free collective (wage) bargaining started to function, albeit in the minority of enterprises, although it was faced with immense difficulties. It was hindered by the weakness of trade unions at enterprise level and by the frequent absence of employer organisations on sectoral level.

In the 1990s, as a "dividend" of negotiated wage policies and the business organisations' autonomy in setting wages, labour conflicts already tended to follow the market economy patterns: strikes, in increasing number, were directed against the employer and labour aimed for more favourable provisions in collective agreements.

Chapter V

INCOME POLICY PACKAGE AGREEMENTS

The Interest Reconciliation Council had no official and formal entitlement, laid down in law or in its Statutes, to negotiate and conclude income policy agreements. Income policy formulation and the preparation of related legislation – on the annual state budget and on taxation – were the tasks of the government, while the laws were passed by the parliament. Despite – or alongside – that, several income policy agreements were struck in the IRC in the terms of both the Conservative Antall-Boross Government (1990-94) and the Socialist-Liberal Horn Government (1994-98): in 1991, in 1992, in 1993, in 1994 and in 1997 – that is every two years on average during the 10 year existence of the IRC. That is why some participants of the tripartite talks – unions and employers – tended to include the conclusion – or at least the negotiation – of income policy agreements in the essential functions of the IRC.¹

1. The political and economic context

The question is: if income policy agreements were not on the official and formal agenda of the tripartite council, why and how did it happen, that a series of them were concluded in the terms of the first Conservative and Socialist-Liberal Governments?

As was described in the previous chapter the Interest Reconciliation Council performed the important function of national wage negotiations for the business sector – as to the annual growth of gross earnings – and for the whole of the national economy – as to the statutory minimum wage.

While these negotiations were focused on – in fact limited to – nominal earnings, all of its participants had an interest in real income.

Trade unions – and workers – placed their major interest in net real earnings. Net real earnings are equal to nominal gross earnings minus personal income tax, contributions to social insurance and the growth in consumer prices.

¹ Without any intention of minimizing the importance of the income policy agreements, it should be noted at the very beginning of our analysis, that it was exaggerated by both their participants and the mass media. “The Interest Reconciliation Council agreed on the Acts on the Annual Budget and Taxation” – one would read the headline in the papers. The actual situation was, that the IRC discussed these draft acts and – in the years indicated above – it arrived at agreements on certain points, which the unions and employers considered as important for the interests of their constituency. The list in some cases was long, in other cases short, but it usually did not touch upon the actual structure of the draft acts. As these pieces of legislation had normally been submitted to parliament, the implementation of the agreements was carried out via proposals of amendments to the draft acts by MPs from the governmental benches.

Employers were sensitive to real labour costs, including – as well as nominal gross earnings – the contributions, which they had to pay for their employees to the social insurance funds and the Labour Market Fund.

The government's primary interest was related to real revenues of the budget, originating primarily from taxes imposed on the income of the population. Earnings from employment relationships were part of this income, but their share in the total income of the population already sank below 50% in the early 1990s.

That is why it was difficult, if not impossible, to negotiate and to agree on the nominal growth of gross earnings and on the gross minimum wage without discussing also personal income taxation and taxes imposed on the business organisations, contributions to the social insurance funds, inflation etc.

The national trade union confederations and the employers' associations were united by the strong common interest – even if they were divided and opposed to each other on other issues – to have income policy negotiations and possibly agreements with the government, above and beyond wage negotiations and agreements.²

The governments' attitude was less unambiguous. They certainly had a certain motivation to achieve income policy agreements in particular situations and conditions, but were unwilling to undertake an official and formal obligation to make efforts at any time and in any conditions to conclude them. The income policy agreements to be discussed were struck in entirely differing political and economic situations and that is why it is very difficult to identify political and economic conditions which brought about the governments' motivation and the birth of such deals as a necessity. If one still insists on finding a central tenet in the agreements prior to 1997, it was the governments' effort to share responsibility with the social partners for the unpopular measures they had to take.

To present the complex political and economic conditions motivating income policy negotiations and agreements, three very much differing deals – of 1992, 1994 and 1997 – are to be analysed.

2. November 1992: calming down the trade unions

In Autumn 1992 the political atmosphere was extremely tense.

In 1991 the workers suffered a sharp drop in real earnings. Unemployment was rapidly increasing to reach an unprecedented peak in a couple of months.

² When the IRC's functions were reviewed in 1996/97 – in the framework of the envisaged reconstruction of the tripartite body – both the trade unions and employers made efforts to secure a quasi co-decision right for the IRC in income policy formulation, and when they failed to achieve it, they insisted on the inclusion of references to the income policy agreements in the IRC's Statutes. Long lasting debates took place on terms. It was urged that the formulation, "the government consults with the unions and employers on income policy issues" be substituted by the new text: "the government carries out negotiations with the unions and employers on income policy issues with the goal of achieving agreement." These proposals were resisted and rejected by the government, as it justifiably considered income policy formulation as its own task and responsibility.

Table No 5: Major indicators of macroeconomic development in Hungary, 1991-1998

	1991	1992	1993	1994	1995	1996	1997	1998 (est.)
	Rate of growth (constant prices, %)							
GDP	-11.9	-3.1	-0.6	2.9	1.5	1.3	4.6	5.1
Within it:								
• Domestic consumption	-9.1	-3.6	9.9	2.2	-3.1	0.8	4.0	7.4
• Final consumption	-5.1	0.6	5.4	-2.3	-6.6	-2.9	2.3	4.0
• Consumption by population	-5.6	0.0	1.9	-0.2	-7.1	-2.7	1.7	4.3
• Accumulation	-21.1	-20.4	32.3	19.8	8.2	12.8	8.6	16.1
• Accumulation in fixed assets	-10.4	-2.6	2.0	12.5	-4.3	6.7	9.2	11.4
• Exports	-13.9	2.1	-10.1	13.7	13.4	7.4	26.4	16.0
• Imports	-6.1	0.2	20.2	8.8	-0.7	5.7	25.5	22.2
Consumer prices	35.0	23.0	22.5	18.8	28.2	23.6	18.3	14.3
	Percentage of GDP							
Current balance of payments	0.8	0.9	-9.0	-9.4	-5.4	-3.7	-2.2	-4.8
Gross debts of the state	75.0	79.0	90.3	88.2	86.2	72.6	63.7	61.4
Net international debt	-	-	37.7	43.7	34.1	27.7	20.3	18.7
	Unemployment and earnings							
Unemployment rate	-	9.8	11.9	10.7	10.2	9.9	8.7	7.8
Gross earnings per capita (previous year = 100%)	30.0	25.1	21.9	24.9	16.8	20.4	22.3	18.3
Real value of net earnings per capita (previous year = 100%)	-7.0	-1.4	-3.9	7.2	-12.2	-5.0	4.9	3.6

Source: Hungarian National Bank

One of the memorable trade union laws of Summer 1991 – Act XXVIII – led to sharp confrontation between the Conservative Antall Government and the old reformed trade union confederations, primarily the National Association of Hungarian Trade Unions (MSZOSZ). This confederation openly refused to obey Act XXVIII on the management and redistribution of trade union assets, it described the piece of legislation as unconstitutional and politically discriminative. In fact, the Constitutional Court found certain of its provisions unconstitutional and called for their revision. MSZOSZ and five other trade union confederations, seeking to evade the procedure of the redistribution of assets as prescribed by law, succeeded in coming to terms, at least for part of these assets, in September 1992. This agreement created a new, still very tense, situation between the Government and the now six trade union confederations, including the newly formed ones.

The November 1992 IRC income policy agreement had the goal of easing this confrontation and restoring working relations.³

“The 1992 November agreement includes a double deal in two separate and by their nature very much differing issues. On one hand, it is an agreement related to the preparation of economic legislation for 1993, on the other hand it is a political agreement on the settlement of relations between the government and the trade unions. This linkage was not accidental, either on the part of the government or the trade unions. The government could secure the IRC’s support for its measures imposing new burdens on both employers and workers – such as the increase of their contributions to the Solidarity Fund – which was compensated to some extent by some minor concessions (in taxation). The unions were also eager to negotiate and agree on economic policy issues, as the agreement achieved could be proclaimed as a result to their membership and to the public. In addition, they were in a position to exercise pressure to achieve it, as employees could most probably be mobilised in issues of wages, prices and taxation. They could not be mobilised however for the settlement of relations between the government and the unions, which was the essence of the agreement. It was in this way that the barge of the political deal between the government and the unions was helped by the following wind of the income policy agreement to a safe harbour. The most important element of the political deal was, that the government undertook the obligation to adapt legislation on the unions to the new de facto existing situation of the labour organisations. It also consented to cooperate with the unions in working out conditions for the elections aimed at testing the representativeness of the trade union confederations. The text of the agreement did not deal with these issues in detail – it limited itself to the declaration of the intention to cooperate – but it was followed up by actual – mostly informal – intensive consultations among the government, the unions, the political parties and actors in legislation. It was in this way that the final legal conditions were worked out and set for the 1993 elections of the Self-Governments of Pension and Health Insurance and of the Works and Public Servants’ Councils and the revision of the 1991 Act on the management and redistribution of trade union assets was carried out (February-March 1993). The elections referred to made it possible for the big old reformed trade union confederations – despite adverse political efforts – to prove their legitimacy and representativeness and that was how MSZOSZ became – without any doubt at the time – predominant among the organisations of labour.”⁴

As to its actual contents, the agreement underlined the importance of active employment policy and set aside HUF 18 billion for 1993 for this purpose to the Employment Fund financing it – with the stipulation that HUF 12 billion was to be provided by the State Property Agency from privatisation revenues; the compulsory employer/employee contribution to the Solidarity Fund providing for the unemployed was raised to 7% and 2% of gross earnings, respectively; the period of entitlement to unemployment benefit was reduced to 12 months and a maximum and minimum level were defined (the latter independently of the minimal wage level); 0% VAT was fixed on pharmaceuticals and household electricity; preferential VAT was fixed at 6% and several kinds of socially motivated exemptions from personal income taxation were defined; the minimal wage was raised to HUF 9,000 and

³ The text of the November 1992 agreement – and an analysis of its implementation – can be found in the APPENDIX.

⁴ Héthy, L.: Tripartizmus és politikaformálás Magyarországon. Az 1992 évi ÉT megállapodás és összefüggései. In: (Ladó Mária szerk.): Tripartizmus és munkaügyi kapcsolatok Közép és Kelet Európában. Munkaügyi Kutatóintezet. Budapest, 1994. In English: Tripartism in Public Policy Formulation in Hungary. In: Tripartism on Trial (Ed: R. Kyloh), ILO Central and Eastern European Team, Geneva, 1995. p. 79-104.

family allowances were increased; the average increase in old-age pensions was set at 14% for 1993; the agreement also ordered the postponement to 1995 of the increase of women's pensionable age.

As the agreement covered a wide scope of income policy measures from the statutory minimum wage to the compensation to tuition fees in higher education, the outsider observer's impression may be that it was eclectic, gathering issues in an ad hoc way from differing fields of governmental wage, income, social and employment policies. Nonetheless, in reality the agreement had a coherence and was based on certain governing principles:

- a) Setting the statutory minimum wage was perhaps the most important function of the IRC. The trade unions urged its considerable and repeated raising with reference to the increasing living costs. Exemptions from taxation, the raising of family allowance and other similar items in the agreement were meant to ease – by income- and social-policy measures – the pressure for a higher minimum wage.
- b) For employers the raised statutory minimum wage, and the increased contribution to the Solidarity Fund, involved increasing labour costs, which were compensated to some extent by some measures in the field of their taxation by the agreement.
- c) As both the workers' and employers' negotiating groups were extremely heterogeneous, consisting of differing organisations representing their own special interests, the negotiations had to deal with special sectoral issues too, such as those of agriculture or higher education. (Most IRC income policy agreements had special provisions e.g. for agriculture as it was represented by three employers' associations in the tripartite council.)

The Interest Reconciliation Council attempted to reinforce its own positions too in relation to the "rival" Interest Reconciliation Council for Budgetary Institutions, which became separate and independent of the IRC in the same year and for which the fresh Act on the Legal Status of Public Servants (1992) provided legal foundations. The November 1992 agreement did cover, regardless of the existence of the IRCBI, the salary increases for public servants and civil servants and only their sectoral distribution in public services was left for the IRCBI.

In Autumn 1992 the IRC agreement was much needed by the government for other political considerations too. The draft 1993 state budget was sharply attacked not only by the opposition, but also by the supporters of the government. In this situation it seemed a welcome development, if Finance Minister Mihály Kupa – who was one of the major architects of the agreement⁵ – could stand up in parliament and in the governmental coalition parties' meetings and declare that the draft budget and taxation laws were accepted and supported by the IRC – by the national trade union confederations and employers' associations. In addition, the government was engaged in warfare also on several other frontlines: the political conflicts around the control of mass media, as well as the internal struggles within the governing Hungarian Democratic Forum (MDF), about the party's relationship to its right-wing extremists reached their climax at this time too.

In this context a treaty of peace or at least a cease-fire with the unions was an attractive idea. The government still had vivid memories of the taxi and lorry drivers' blockade in 1990 and the strike threats of the "hot Autumn" in 1991.

⁵ The other major architect of the agreement was Sándor Nagy, the president of MSZOSZ.

3. November 1994: building block to the “Social Pact”

The IRC’s income policy agreement of November 1994 was concluded by the Socialist-Liberal Horn Government under severe political and economic constraints as a result of long lasting and tough negotiations – involving much more limited costs for the government, than its predecessor two year before.⁶

Firstly, the Horn government had firmly committed itself already in the election campaign in Spring 1994 to initiating and concluding a grand general and long term Social and Economic Agreement – or as it was commonly called: a Social Pact. In its first meeting, one week after the Government took office, on 22nd July 1994 the IRC accepted the initiative – which was made by the Prime Minister in person⁷ – that “a series of negotiations were to be started to achieve the Social and Economic Agreement”. As a follow-up Autumn was spent in formal and informal talks to this end.

Secondly, it became more and more obvious and much debated also in the Government, that the state of the national economy as to its balances was critical and emergency measures of macro economic stabilisation were unavoidable; i.e. the Government had to impose further heavy burdens on both the workers and employers, its very partners in the IRC. Scenarios for such possible measures repeatedly appeared on the agenda of the Government’s meetings, causing serious divisions in the body and the measures under consideration cast a dark shadow on the income policy negotiations in November 1994.⁸

On the part of the Government the Ministry of Labour looked upon the IRC’s income policy negotiations as a last chance for the Social and Economic Agreement. It was thought that the acceptance by the social partners of the Government’s economic policy for 1995 could promote their agreement on the longer term economic policy issues too, while the failure of these negotiations, i.e. the rejection by the social partners of the Government’s economic programme for 1995, would reduce the prospects of the grand agreement to zero. The Ministry of Finance at the same time was concerned – with good reason – by the probable costs of “purchasing” the cooperation of the social partners in the extremely tense situation of the budget and the state household. The negotiations were led by the Minister of Labour – Magda K. Kovács – and the Minister of Finance – László Békesi.

The income policy agreement was struck after long – formal and informal – bargaining within and outside of the conference room. What did it contain?

⁶ The 1992 November IRC agreement cost the government about 40 billion HUF in terms of revenues lost and additional expenses in the budget. Such estimates by experts can be much debated, as costs do not mean actual losses and spending, but envisaged ones.

⁷ The appearance of Prime Minister Horn in the IRC was a new development heralding a new era. His predecessor, Mr. Antall, visited the tripartite body only once and very briefly, while the present Prime Minister, Mr. Orbán, has never appeared in this body (called the National Labour Council at present).

⁸ While the Social and Economic Agreement was prepared, the IRC discussed the draft act on the 1994 Supplementary Budget – prepared by Finance Minister Békesi – on 6th September 1994. The employers, with some reluctance, took note of or supported it, while the trade unions did not accept it. After the IRC negotiated the Government’s economic policy directives on 26th October 1994 – with the participation of the Prime Minister once again – still another IRC meeting had the draft proposals for the 1995 budget and taxation on its agenda on 18th November 1994. The final round of the income policy negotiations for 1995 took place in a marathon meeting on 25-27th November 1994, when the Parliament had already been engaged in the debate over the draft Acts of the Annual State Budget and Taxation for 1995.

- 1) The employers' major target was to achieve a considerable reduction of their contributions to the Employees' Solidarity Fund.

As the number of registered unemployed kept steadily declining (after its peak in early 1993), surpluses accumulated in the Fund, which made it possible for the Government to withdraw contributions by the budget – a practice which was criticised and opposed by the employers.

- The employers were granted a symbolic reduction in their contributions to the Solidarity Fund (from 5% to 4.2% in terms of gross earnings).
- The rearrangement of financial resources from the Solidarity Fund to the Employment Fund⁹ remained subject to approval by the social partners. (The Government had threatened the IRC with pumping over financial resources via an amendment by the Employment Act with the approval of the Parliament.)
- It was accepted by the social partners that 11 billion HUF would be pumped over from the Solidarity Fund to the Employment Fund in 1995 and a budgetary contribution of the same amount would be withdrawn from the Employment Fund.
- The Labour Market Committee (of the IRC) was entitled to move over a further 5 billion HUF from the Solidarity Fund to the Employment Fund in 1995, if needed.
- The social partners acknowledged that the Government's obligation to foot the possible deficits of the Solidarity Fund up to its 10% from the state budget – as prescribed by the Employment Act – would be deleted.
- The social partners took note of the Government's intention to raise contributions, if the resources in the Solidarity Fund did not follow the positive forecasts.
- The agreement did not deal with earnings in the business sector.

The negotiating parties obviously had no intention of adding another conflictual item to the agenda of the already tense talks. By this time it had been repeatedly indicated by governmental experts, that real wage cuts could not be evaded in 1995 – an idea which was debated and strongly opposed by the trade unions.

The agreement was limited to the formulation of some principles for 1995: "No central regulations are to be applied in wage determination. Earnings growth is to be dependent on wage negotiations and agreements between the employers' and workers' organisations. At state owned companies the owner will not impose its will via legislation, decrees or public decisions. It acknowledges that this sector needs different treatment."

⁹ The Employees' Solidarity Fund – based on contributions by both employers and employees – was the source out of which unemployment benefits were paid. The Employment Fund – originally based on budgetary contributions and revenues from privatisation – had the function of financing active employment policy programs, promotion of employment etc. These two large separate state funds were united in 1996 – and integrated with three other smaller funds under the control of the Ministry of Labour – to form the Labour Market Fund. For the institutions and functioning of tripartite structures in the formulation and financing of employment policies, see Chapter II.

The agreement however covered salary growth in public services – for the last time in the history of the Interest Reconciliation Council.¹⁰

- 2) The Government undertook the task of creating – in close cooperation with the Self-Governments of Pension and Health Insurance – the necessary conditions for the independent financial functioning of the Pension and Social Insurance Funds until 30th June 1995, including the consolidation of these funds and a further transfer of state assets to them. It was also made possible for the Self-Governments to rely on the resources of the central state budget, if needed – until the end of June 1995, instead of 1st January 1995, as had been originally intended by the Government.

The latter was an important gesture for the Self-Governments – and for MSZOSZ which dominated these bodies.

- 3) Both the employers and the workers were granted a set of minor concessions on taxation.¹¹ These were important for certain social groups and organisations of interest representation, but did not result in any important changes in the taxation laws unintended by the Government.

Both the trade unions and employers appreciated the government's promise to negotiate the raising of the controlled prices of energy by 1st January 1995 and its possible compensation for the population and the budgetary institutions in the IRC.¹²

The 1994 November IRC agreement was based on a fragile structure of carefully balanced compromises and approved by the votes of the three negotiating groups.

Although it was accepted by the employers' negotiating group – as the majority of the employers' associations supported it – it was difficult to ignore and forget that it did not enjoy the backing of three organisations: the important MMSZ (Hungarian Employers' Association), VOSZ (National Association of Entrepreneurs) and IPOSZ. Similarly, the workers' negotiating group subscribed to the deal, but several trade unions expressed their reservations.

In the following two months the IRC achieved an agreement on the 1995 statutory minimum wage, but could not come to terms as to the recommendations for earnings growth in the business sector. It was the first time – since the introduction of negotiated wage policies – that the IRC proved to be unsuccessful.

On 10th February 1995 the negotiations aimed at the Social and Economic Agreement were declared closed by the Government in the IRC's plenary sitting.

¹⁰ This time the IRC had no intention of trespassing on the field of authority of the IRCBI (Interest Reconciliation Council of Budgetary Institutions). It was Finance Minister Békesi who declared that he was unwilling to have separate talks on public service salaries with the public service unions in the IRCBI.

¹¹ Among other things workers in low income brackets (below an annual 500,000 HUF) were granted 7200 HUF reimbursement from the personal income tax paid by them, the workers' 1.5% contribution to the Solidarity Fund became exempt of taxation, free of charge meals provided by some employers for the workers remained exempt of taxation too (up to the limit of a monthly 1600 HUF if in kind and of 1200 HUF if via coupons). The entrepreneurs' supplementary tax on dividends was reduced to 23% from the originally intended 25% and dividends became exempt of taxation if spent on paying back certain types of credits etc.

¹² Despite this governmental promise the raising of energy prices was not discussed in the IRC. It had a meeting only on compensation on 16th December 1994.

The next development was the approval by the Government of the macro economic stabilisation measures on 12th March 1995. The IRC was informed by the Prime Minister about their justification and major elements on 5th April 1995.

4. October 1997: opening for a peaceful cooperation

1997 was an exceptional year in the history of Hungary's tripartism in the sense that everything functioned according to the rules. Talks about the 1998 draft economic legislation as well as earnings started and the agreements were concluded in due time. The IRC's wage agreement – after years of hiatus – was based once again on an income policy package deal.

These developments were made possible by the favourable political and economic conditions:

- the Bokros-package (i.e. the tough macro economic stabilisation measures of 1995) started to make its positive impact felt: economic growth restarted, inflation considerably decreased – actual inflation remained within the limits of governmental forecasts – and real earnings began to grow both in public services and the business sector;
- the Government's work became well-balanced. Draft acts for the 1998 annual state budget and taxation were prepared in due time. (The draft act on the budget was submitted to parliament as early as 15th September, which had never happened in the preceding years.)

Within the Government, as to contacts with the social partners, good cooperation was maintained between the Ministry of Finance and the Ministry of Labour;¹³

- the Interest Reconciliation Council completed a successful one and a half year period in the course of which a great number of agreements had been achieved in 1996 and in the first part of 1997 (see Chapter II.);
- the Government, having in mind the coming parliamentary elections in 1998, had an increased motivation to achieve agreements – in the context of the above favourable political and economic conditions – with the social partners.

The trade unions and employers were similarly eager to be part of a peaceful “family photo” to make the public forget their ongoing open bitter conflicts around the renewal of the Self-Governments of Pension and Health Insurance. (Chapter II.)

The Government signalled its readiness to start 1998 wage negotiations in both the IRC and the IRCBI at a very early date, in May 1997. The initiative was supported by the argument that it was desirable to achieve agreements in the period when no decisions were taken as yet about the 1998 state budget and taxation laws, setting the economic policy framework for the growth of earnings too.¹⁴

¹³ The Finance Minister was Péter Medgyessy (1996-98) and the Ministry of Labour was headed by Péter Kiss (1995-98). Tripartite negotiations were taken care of by the Political State Secretaries of the two ministries, László Akar and the author.

¹⁴ It had been a permanent complaint on the part of both unions and employers in the preceding years, that income policy negotiations started in a period when the draft acts on the state budget and taxation had already been submitted to parliament, and that, when agreements had been struck, they could be implemented only via proposals of amendments by MPs or parliamentary committees. This had been a technical reason – on top of the material reasons – for the tenseness of negotiations described earlier.

The first round of the 1998 wage negotiations took place in the Interest Reconciliation Council as early as 14th July 1997. It laid down certain principles and postponed actual negotiations to September. In parallel, actual negotiations on the 1998 public service salaries started in the Interest Reconciliation Council for Budgetary Institutions, as the actors of this sector – primarily the public service unions – felt much more pressed by the 15th September deadline for submission of the draft act on the 1998 state budget to the parliament, than their colleagues in the business sector. This was to be expected as the act was to directly determine public service salaries.

The 1998 (preliminary)¹⁵ wage agreement for public services was achieved by the IRCBI on 11th September 1997 and it made it possible for the government to include the new public services salary scale – as accepted and supported by the trade unions – in the draft act on the 1998 state budget submitted to parliament on 15th September.

The Interest Reconciliation Council approved the Government's proposals for the 1998 earnings growth, state budget and taxation on 15th October 1997. It was underlined, that the social partners "consider the major figures of the 1998 state budget and household such a framework of economic policy, as they accept and follow in the course of their further sectoral and branch level negotiations and do not support any such proposals, which would put at risk the establishment of this framework."

The IRC's October 1997 agreement approved with slight modifications the draft acts of the 1998 state budget and taxation.

The minimum wage was raised to 19,500 HUF – by 1st January 1998 in the national economy and by 1st March 1998 in agriculture. The recommendations for gross earnings growth in the business sector were set in the bracket 13.5-16%. Employers, among other things, were granted reductions as to their contributions to the Labour Market Fund – for the first time since 1994 – i.e. minus 0.3% (by 1st February 1998) and another minus 0.2% (by 1st July 1998). At the proposal of workers – among other things – tax reimbursement for employees was raised to 4200 HUF and it was decided that 5 billion HUF worth of subsidised holiday coupons would be issued for (active and retired) workers in 1998.

The agreement provided a good illustrative example of peaceful and cooperative interest reconciliation in income policy formulation – in the context of a more favourable political situation – when mutual goodwill and empathy were present on all of the three sides of the negotiating table. It forecast the vision of a consolidated and civilised future social dialogue and it made the participants and the wider public forget the tense and bitter negotiations of the previous years – in the term of the Antall-Boross Government and in the first two years of the Horn Government – when the IRC's sittings were accompanied by threats of strikes and demonstrations.

¹⁵ The trade unions formulated three preconditions by the fulfilment of which the agreement was to come into force automatically: actual inflation stayed within the governmental forecasts (17-19%) in 1997, the IRC did not accept a recommendation for the average growth of gross earnings in the business sector higher than 16%, changes in personal income taxation improved the net positions of salaries by an average 0.5%. Developments in the rest of 1997 did meet these preconditions.

5. Dividends and limits

The IRC's income policy agreements – which are difficult reading for the outsider as they contain lists of items of understanding with references to definite paragraphs of draft acts – had the following permanent major components:

- a) (openly or tacitly) the growth of earnings and of the statutory minimum wage;¹⁶
- b) contributions by the employers and workers to the Labour Market Fund (and its predecessors, the Solidarity Fund, the Employment Fund etc) – the discussion of contributions to the Pension and Health Insurance Funds was exceptional in the IRC; and finally
- c) taxes, including personal income taxation and taxes imposed on the entrepreneurs.

Wage negotiations followed a regulated procedure, while income policy talks had no predetermined rules – nor pre-fixed contents – and the court was free for all kind of possible games. That is why income policy agreements show a great variety, as to their contents and the issues dealt with, and often they cover issues right outside of the borders of income policies themselves. (Remember the November 1992 agreement.)

- 1) As the power positions of the three parties – the government, the unions and employers – were obviously unequal, the agreements produced differing dividends for them.

The governments' efforts – whether Conservative or Socialist-Liberal – were concentrated on the maintenance of the balances of the state budget and household.¹⁷

The income policy agreements were advantageous for the governments. They secured the employers' and – even more important – the trade unions' support, or at least tolerance, for the critical and unpopular measures taken by them. Governmental policies became "legitimised" by the Interest Reconciliation Council's approval. The governments – and finance ministers – after an agreement had been achieved, did indeed hurry to make it known to the parliament and the public that the governmental initiatives enjoyed tripartite support.¹⁸ In fact, these agreements contributed to the maintenance of social peace in very critical periods, which Hungary could thus survive without open national conflicts – strikes, mass demonstrations or other disturbances.

The trade unions constituted the governments' major partner in the income policy talks. The Conservative Antall-Boross government was scared by them, while the Socialist dominated Horn Government was committed to them and looked upon them as its political allies.

¹⁶ Certain income policy agreements, as has been described, had provisions for earnings, while others did not. But even if separate wage agreements were concluded, the issue of earnings growth loomed in the background of income policy negotiations, because of the trade unions' strong interest in real earnings growth.

¹⁷ Autumn 1995 provided a characteristic example of the governmental approach. Finance Minister Lajos Bokros negotiated 1996 income policies in the IRC. The tough negotiations did not bring about results, but efforts were made to achieve them. Among other things a great number of possible variations for the personal income tax scale was discussed, during which the Finance Minister declared that any scale was acceptable to him if it guaranteed the envisaged revenues for the state budget.

¹⁸ There were some ironic scenes too. In Autumn 1995 Finance Minister Bokros – referred to above – misunderstood the situation in the IRC and hastened to inform the Congress of the governing Hungarian Socialist Party (MSZP) in Miskolc, that an agreement had been achieved on the 1996 economic policy in the tripartite council, while in the end the negotiations yielded no results.

Nonetheless, these negotiations and the agreements achieved provided much less feeling of performance and success for the labour organisations, than for the governments. They probably eased the burdens of the workers, but did not – could not – prevent the real earning drops of the 1990s.

In the IRC's negotiations the employers' complaints about the increasing costs of employment were swept under the carpet, as the two other partners tended to tacitly look upon them as a kind of "crocodile tears" which were not to be taken seriously.

The limited sensitivity of the income policy agreements as to the employers' – justified and legitimate – claims, i.e. for the reduction of contributions levied on earnings to decrease the costs of employment, did in fact contribute to the stagnation of the employment rate at a low level.

While the rate of unemployment radically decreased in the middle and second half of the 1990s, the rate of employment remained practically unchanged and the flexible "cost-saving" forms of employment (such as contract labour) rapidly expanded.¹⁹

The low rate of employment had a negative impact on the positions of both workers and trade unions.

- 2) The governments, being keen to safeguard the balances of the national economy, had to "purchase" the cooperation or at least the tolerance of trade unions. When doing so the financial costs of such exercises were always charged to the employers.

Employers' contributions to the Solidarity Fund were raised to a record high level – prior to the 1993 climax of registered unemployment – by the Antall Government, with the approval of the IRC.

Although in the period 1993/97 the number of registered unemployed was reduced by 50% – and of those receiving unemployment benefits by an even higher percentage – and considerable surpluses were accumulated in the Solidarity Fund, the Horn Government – under the constraints of stabilisation – did for some years resist the employers' demand to reduce the rate of their contributions. They were granted a symbolic reduction in 1995 and another one in 1998 – as described in the earlier parts of this chapter. Instead, the Government withdrew from the financing of the Employment Fund too, and charged additional expenses on the Solidarity Fund (to pay for part of the income support provided for the unemployed after the expiration of their entitlement to unemployment benefits.) The Labour Market Fund – which united the Solidarity Fund and the Employment Fund in 1996 – remained a major source for covering the deficits of the state household.

The workers – or rather the unemployed – also had their share of the burdens: the minima and maxima of the unemployment benefits remained unchanged, as fixed by the November 1992 IRC agreement for the period 1993-96, while an annual inflation of about 20% eroded their real value.

¹⁹ In the first quarter of 1999 the rate of unemployment was 7.4%, compared with the 10% average rate of the European Union, but the rate of employment (in the age group of 15-74 years) was only 52.6%, which came close to the lowest national figures within the European Union.

Table No 6.: Contributions by employers and employees to the Labour Market Fund and unemployment benefits

Date	01.03.91	01.01.92	01.01.93*	01.01.94	01.01.95	01.01.96	01.02.97	01.03.98
Employers' contribution (in % of gross earnings)	1.5	5.0	7.0	7.2	5.0	4.2	4.2	4.0
Employees' contribution (in % of gross earnings)	0.5 (starting 01.07)	1.0	2.0	1.5	1.5	1.5	1.5	1.5
Time cycle of the provision of unemployment benefits (months)	24	18	12	12	12	12	12	12
Minimum of unemployment benefits (HUF)	7,000	8,000	8,600*	8,600	8,600	8,600	10,350	13,815
Maximum of unemployment benefits (HUF)	21,000	16,000	18,000* (for up to 3 months)	18,000 (for up to 3 months)	18,000 (for up to 3 months)	18,000 (for up to 3 months)	20,700	27,630
			15,000* (after 3 months)	15,000 (after 3 months)	15,000 (after 3 months)	15,000 (after 3 months)		
The number of those receiving unemployment benefits (in December of the year)	-	476962	326618	191593	198903	139408	136707	139058

* The maximum and minimum of the unemployment benefits were fixed and separated from the statutory minimum wage by the amendment of the Employment Promotion Act.

- 3) The income policy agreements could not be blamed in the least for having been based on the careful general consideration of their economic and social policy context and consequences or for having been concluded to promote clear political strategies.

The presence – or rather lack – of IRC discussions on political strategies was one of the most controversial issues of the institution's whole history. Such debates were repeatedly urged by both the employers and the unions with differing emphasis in the various periods of the IRC's life cycle. In 1994 e.g. they wanted to have an insight into the Government's three year economic programme, into its privatisation strategy, into its practices of dealing with international debts etc. It would have been an important additional contribution to their prestige and "legitimation", if they could have publicly demonstrated their status in governmental policy formulation, their participation in shaping governmental strategies. They wanted to have an insight into the "cards" of the government.

The Antall and Horn Governments – cornered by grave political and economic problems – did not hurry to meet such demands in general. Their behaviour was understandable:

- a) they were faced with partners, of whom a sharp criticism of governmental strategies could have been expected and who were not prepared to make positive and constructive contributions or set alternatives themselves;
 - b) the governments engaged in “fire-fighting” very often did not have clear strategies themselves or had several parallel often contradicting strategies, which they were unwilling to advertise via the tripartite body;
 - c) it would have far exceeded the original mission – functions and authority – of the IRC to have a say in such matters, which – even if not unrelated – had only a distant relationship with the world of work.
- 4) Income policy package agreements, as a general rule, were implemented, at least the governments took the necessary measures to implement them. As they were mostly related to the amendment of draft economic legislation, the government did initiate the preparation of the proposals for such amendments and mobilised its “voting machinery” to push them through the parliament, except for when conditions radically changed.
- agreements – or parts of them – were overwritten by new unfavourable developments in the economy.

The provisions for taxation of the November 1992 agreement were revised after half a year by the amendment of the taxation laws by the Antall Government, which was made necessary by the increased budgetary deficits. Similarly, several items of the November 1994 agreement were overturned by the measures of the “Bokros-package” in March 1995.

- agreements limited to a set of definite measures involve – or do not exclude – the possibility that their impact be neutralised or counterbalanced by other measures outside of the scope of the deal.

As an outcome of the November 1992 IRC agreement electric power (consumed by the population) and medicaments were kept exempt of general turnover tax. Resulting losses for budgetary revenues however were compensated in 1993 by the reduction of budgetary subsidies aimed at keeping their prices at a low level.

- agreements concluded by the government in the IRC theoretically had no binding force for legislation and could be revised by the parliament.

In November 1992 the Antall Government pledged to raise pensions by 14% in 1993, but the parliament approved only somewhat less than 10%. Of course, the government washed its hands of this development, as it took place outside of its authority.²⁰

As for implementation the trade unions and the employers were obliged to keep to the provisions on earnings growth. Nonetheless, it never became clear throughout the

²⁰ The parliament took a very tricky decision: it raised pensions by 10% in March and by another 4% in September – the two figures put together make 14% – but the actual average annual growth of pensions stayed below 10%.

existence of the IRC what kind of guarantees existed or could have been set up on the part of the social partners to this end.

6. The end of the exercise

When the second Conservative Orbán Government took office (1998) the series of income policy agreements – at least momentarily – arrived at an end. It is most unlikely that such deals will be concluded, at least in the term of the present Government. It was made clear, that – unlike its predecessors – it was unwilling to be engaged in negotiations on income and economic policy issues with the social partners.²¹

The new National Labour Council – the successor to the Interest Reconciliation Council – is limited to the “world of work”. It has no authority to deal with income and economic policy issues. The formulation of such policies – and the preparation of related legislation – is the exclusive right of the executive power and of parliament, in the governmental philosophy.²² What the social partners, the trade unions and the employers could achieve was only a possibility for some consultations on income and economic policy issues with the Ministry of Finance. Nonetheless, these consultations no longer take place in the public sittings of the tripartite council, but outside it behind closed doors. In this way tripartism in Hungary – at least the IRC or rather its successor, the National Labour Council – has been stripped of an important function, which it performed throughout the 1990s – with some intervals and with more or less success.

These practices won't be missed in the future, as long as sustainable economic growth brings about – as is hoped – a steady growth in real earnings as well as entrepreneurial income, reductions take place in taxes and contributions imposed on earnings, the instruments of income policy (primarily the tax system) get consolidated and inflation is kept at a low level. In this case – and only in this case – the government can afford not to rely on talks with the unions and employers, on their tolerance, acceptance or support.

²¹ A new institution – the Economic Council – was established in April 1999 to carry on economic policy consultations. See Chapter VIII.

²² The government's philosophy is clear and straightforward. Nonetheless, its 1999 April proposal for the Interest Reconciliation Council – described in Chapter IV – did not seem to be in harmony with this philosophy. Then it made the proposal to conclude a three year agreement on the growth of real earnings in the business sector, fixing the rate of real earnings growth at 50% of GDP growth. Real earnings are an income policy category which can be approached in the context of taxes, contributions, inflation etc.

Chapter VI

THE ANATOMY OF A TRIPARTITE FAILURE

Having come into office in the summer of 1994, the Socialist-Liberal coalition of MSZP (Hungarian Socialist Party) and SZDSZ (Alliance of Free Democrats) initiated an experiment, unprecedented in the Central and Eastern European region. As part of its agenda, it set an objective of reaching a comprehensive Social and Economic Agreement (TGM)¹ for the whole of its four-year term hoping to obtain social support, or at least tolerance, for its economic recovery programme (and the attendant stabilisation measures). Through the pact it also aimed, based on consensus, to establish ways of handling the social implications of the economic package. Thus the agreement was to function as a safeguard of social peace in the coming critical period of Hungary's transformation.

The initiative was made by Prime Minister Gyula Horn, one week after the government took office, on 22nd July 1994 in the plenary sitting of the IRC.

1. The grand agreement and the IRC

Negotiations towards the TGM were held within the Interest Reconciliation Council (IRC), with the government seeking a tripartite pact to be signed by union confederations and employers' associations. The idea was based on the facts that

- 1) the IRC included representatives of the most significant economic interest groups at that time: six union confederations and nine employers' associations;
- 2) the legitimacy and popular support of these bodies as a whole was considered to be satisfactory and substantial;
- 3) the machinery of tripartite negotiations had a track record of five years of experience, and had proven its viability even during the days of the last Communist government and, following a change in the political system, under the previous Conservative government; and
- 4) the IRC had previously reached agreements – e.g. the income policy agreements of the preceding years – which could be considered as the forerunners to the TGM.

¹ In Hungarian: Társadalmi Gazdasági Megállapodás (TGM)

Apart from that, the government intended to involve in discussions representatives of a great variety of civil organisations.²

What made the Socialist-Liberal Government's initiative comprehensive and unique in the region was its expectation (and endeavour) to achieve unprecedented results from tripartite bargaining (which, incidentally, was in place in the neighbouring countries as well) – it intended to make an overall social and economic agreement on fundamental strategic and political issues for a whole term. Despite all efforts over a six-month period between July 1994 and February 1995, this laudable idea, or perhaps experiment, failed.

The TGM remained only a good intention, and no prospect for its establishment in the near future seems to be in sight. One is left wondering why. Was it just an illusion to put it on the agenda, or was it changing circumstances that made it a pipe dream? Which, if any, party, and to what extent, was to blame for the failure? Is there a chance of revisiting the idea, or should it be dismissed altogether?

2. Promising prospects and unfavourable conditions

The establishment of the Socialist-Liberal coalition government showed good prospects in terms of reaching the TGM. Nonetheless manifesto promises had already suggested doubts, and ifs and buts about its feasibility became increasingly marked with the passage of time.

Favourable signs included the following:

- 1) The government declared its determination to bring about a change in political style and indicated its readiness for a social dialogue (as opposed to the arrogance and elitism of the previous government).

It did not give up this endeavour even later on, after the failure of the grand agreement, although the tripartite bargaining process attracted lots of criticism as a factor "undermining the government's efficiency", both within the MSZP (Hungarian Socialist Party) and from the coalition partner SZDSZ (Free Democrats).

- 2) Both coalition members wanted the TGM, it was part of the Coalition Treaty and the Government's programme³ – they only differed in their approach, which will be covered later.
- 3) Although the government's programme reflected social responsiveness, deepening contradictions between economic recovery measures and social targets made its revision clearly inevitable in March 1995.

² The civil organisations (in fact NGOs) were actually consulted. They felt hurt that were not given a status equal with that of the employers and trade unions. The workers' organisations in their turn were opposed to the involvement of the civil organisations, which had – in their view – no social support whatsoever.

³ Érdekegyeztetés, társadalmi-gazdasági megállapodás. Az MSZP és az SZDSZ Koalíciós Megállapodása, III. Fejezet. (Reconciliation of Interests – Social and Economic Agreement. Coalition Treaty of the Hungarian Socialist Party and the Alliance of Free Democrats. Chapter III.) The joint working group was headed by the future Socialist Minister of Labour, Magda K. Kovács and the Free Democrat Tamás Bauer. The author contributed to it as an expert on the Socialists' side. The Government's program simply took over the text of the Coalition Treaty.

- 4) With significant left-wing forces present within it, the government displayed a consistent pro-union behaviour. The good relations with unions primarily rested on an agreement between the MSZP (Hungarian Socialist Party) and the biggest confederation MSZOSZ (National Association of Hungarian Trade Unions), ensuring membership of the MSZP's parliamentary caucus for many union leaders.
- 5) Similarly the government had good ties with some employers' representative organisations as well including MMSZ, the Hungarian Association of Employers, a successor organisation of the former Hungarian Chamber of Economy.

However, links between the Hungarian Socialist Party, MSZOSZ and some employers' organisations raised at least two dilemmas. Firstly, what effect would the commitment to economic stabilisation and the inevitable withdrawal of certain social measures have on traditionally good relations with the unions? Secondly, would cordial ties with some social partners be sufficient to reach an overall social and economic pact in an IRC incorporating six union confederations and nine employers' organisations?

Promising prospects indicative of a given political constellation are not identical or to be confused with the existence of necessary conditions. There are certain rudimentary requirements to be met, if solid cooperation between governments, unions and employers is to be established and which are needed as a basis of any overall agreement too. The importance of these necessary conditions is pointed out in the existing (and former) international practice of tripartism, as well as in sociological and political theory.

For tripartism to work effectively it is required that

- 1) there exists a strong government with sufficient popular support, which is in a position to implement tripartite agreements (e.g. through legislation) and has appropriate economic leeway enabling it to "buy" social partner cooperation for appropriate allowances (i.e. offering social assistance, tax breaks etc.);
- 2) there exist strong and united social partners, i.e. unions and employers, who have appropriate tools and membership backing to bring pressure to bear on each other and the government in order to make mutual compromises in agreements, and also have the ability to have their respective supporters accept those agreements;
- 3) in terms of interventions in the economy, the political objectives and ideological values of the three sides are close to each other, or are at least similar;
- 4) an appropriate institutional (and legal) framework is in place to allow contacts, negotiations and settlements between the three parties.

It takes no scientific analysis to conclude that, despite undeniable changes in this regard, the chronic absence of (most of) the conditions listed above has been and is still prevalent ever since tripartite interest reconciliation began in Hungary back in 1988.

By the early summer of 1994 it became clear that – although enjoying considerable parliamentary support – the Socialist-Liberal coalition's economic room for movement was extremely limited. Awareness of that was dramatically raised in the first months of 1995. Unions and employers' organisations tended to be rather fragmented and involved in a variety of political linkages – or, in certain cases, none at all. In addition, even though the legitimacy

of these organisations was justified, the level of popular support they had and their ability to mobilise their memberships were questionable. In terms of political values, philosophies and ideologies, no matter which party was concerned, the only thing they had in common was general confusion, or at best diversity. Perhaps the only positive aspect in this regard was their pragmatism exempt of ideology and values, which was typical of most participants of interest reconciliation and which helped tripartism weather political and ideological storms under a Conservative government during the preceding four years.

Having said that it would not be fair to conclude that the TGM was doomed to fail just as the government took the initiative. The favourable political constellation, which has been referred to as a set of "promising prospects", could have proved to be a positive overture to a process that might have led to improving conditions. It could have helped clarify political objectives and values, i.e. philosophies and ideologies, to be pursued in the economy, and contributed to the strengthening of the awareness of the social partners of their roles in the IRC. What eventually did come out, a tripartite failure rather than an agreement, was the product of the behaviour and interrelations of the three parties, and as such could be blamed on all of them. There was a certain chance when the pact was put on the agenda, but it grew increasingly remote with potential partners gradually eroding it. What seemed within reach in the summer and autumn of 1994 became an illusion by early 1995.

That was the conclusion the government arrived at by early February 1995, and the IRC – much to its regret – had to come to terms with it on 11 February 1995 too.

3. Flying illusions and down-to-earth realities

The story of the TGM – or rather that of the concept and the initiative – dated back to before the 1994 elections. The FIDESZ (Young Democrats), the SZDSZ (Free Democrats) and the MSZP (Socialists) had all supported the idea, but they had meant different things by it. Although initially they all had referred to it as a "social pact" – it had been replaced only as late as Spring 1994 with the "more accurate" term of Social and Economic Agreement.

From the viewpoint of our subject, it is the Socialists' and the Free Democrats' concepts and the differences between them that merit primary attention, given that actual developments were determined by the coalition's initiatives.

With some simplification their differences of emphasis were basically about the scope of the agreement. The Free Democrats were thinking in terms of covering a limited range of areas with a special focus on self-restraint (i.e. the voluntary acceptance of real earnings reduction by social partners) to help implement the economic stabilisation action agenda. In their concept the economic recovery strategy proper – together with other strategic issues – was not going to be part of the pact. By contrast, in their concept the Socialists placed emphasis on a strategic agreement including elements of self-restraint, which would not necessarily have involved real-term wage cuts as such. This difference in emphasis could be explained by discrepancies between theoretical and practical considerations. The Free Democrats repeatedly voiced their concerns over the possible emergence of Hungarian "corporatism", i.e. that agreements primarily between the government and trade unions might exert institutional coercion on the coalition and Parliament. On the other hand, from the Socialists' perspective it seemed plainly impossible that even the pragmatic trade unions should and could ever accept openly the idea of real wage cuts as a basis for settlement. (Subsequent talks did justify this concern.)

The TGM talks – dominated by Socialist-held ministries (Ministries of Labour, Finance and Social Welfare) – basically followed that party's thinking. But the way things developed was in fact dictated by the social partners rather than by the government's approach. Both unions and employers sought to have a say in policy strategies, i.e. policy-making, just as had been the case under the previous government. That was why the agenda of the TGM talks – passed at an IRC meeting on 6 September 1994 – covered a wide range of government policy issues including economic, employment, wage, regional development, transport etc. policies. Another reason for setting up an agenda like that was the fact that no portfolios, held by either party, wanted to be excluded from negotiations and settlements.

The Free Democrats later criticised the agenda of the talks as too "diverse", which had made an agreement "impossible right from the outset". Technically there was a measure of truth in this criticism. It was true, it was difficult even if not impossible to discuss and to come to terms on a wide range of complex strategic issues in a short period of time. But the way we see the matter is that the initiative failed not because of that, but rather because of the government's inability to present concepts on the basis of which agreements could have been reached on certain cardinal issues, e.g. economic policy. Because of this failure, the negotiations could not have arrived at a stage of being narrowed down to the discussion of essential problems. The inclusion of other additional and non-conflictual issues in the pact did in fact make life easier. In response to the government's initiative unions and employers were quick to lay out their long and diverse wish-lists about what they thought should be part of the TGM.

The approval of the social partners was also given to what the government initially had in mind: an overall Social and Economic Agreement (TGM) focusing on political strategies and encompassing its full four years in office. It would have documented an understanding on fundamental strategies, including those for economic, income, wages, employment, as well as social welfare policies. In addition, there would have been an agreement on labour relations and labour legislation issues. In other words the TGM would have addressed vital social partner concerns, implicitly providing clear economic justification, appropriate employment and social policy measures, as well as broader social partner involvement in policy-making, to offset the increased burdens and negative social implications caused by economic recovery actions. The government also proposed that conflictual issues for a given year such as the 1995 budget and economic policy should be handled outside the scope of TGM talks.

Talks on – or rather related to – the TGM took place on two levels.

Firstly, in Autumn 1994 a series of definite economic issues – the 1994 supplementary state budget and the 1995 state budget and taxation regulations – were discussed in the IRC and – with considerable difficulties – agreements were achieved. (See Chapter V.)

Secondly, the IRC repeatedly placed the Social and Economic Agreement on its agenda, but postponed actual negotiations on its contents.

In mid-October 1994 a closed meeting took place in the Ministry of Finance and the Government made the promise to produce the draft version of the Social and Economic Agreement, to react item by item to the proposals of the social partners, and to present its three year economic programme by 14th November 1994. As for the economic programme, it was urged primarily by the employers, but the task was willingly undertaken by Finance Minister Bekesi, who counted on positive reaction on their part.

The Government accomplished its promises only in part. The draft text of the Social and Economic Agreement as well as its item by item answers to the proposals of the social partners were prepared (by the Ministry of Labour) and handed over on 11th November 1994. Nonetheless, the Government could not produce the three year economic programme, as the version prepared in the Ministry of Finance had raised debates, but had not been accepted and later on became overwritten by the measures of economic stabilisation.

After that the IRC, as negotiations on the 1995 state budget and taxation became urgent, put aside the draft Social and Economic Agreement and did not discuss its contents at that time or ever. In its sitting on 16th December 1994, it limited itself – at the initiative of and pressure by the Government – to the declaration that it was determined to speed up the TGM negotiations. Coming changes in governmental economic policy – and its direction – put an end to the process.⁴

The Government took the decision – in its meeting on 2nd February 1995 at the proposal of the Minister of Labour – to close down the negotiations aimed at the Social and Economic Agreement, as it had arrived at the conclusion that “it could not be achieved on the basis of the original intentions at that time or in the near future.” Nonetheless, the Government emphasised its unchanged commitment to national interest reconciliation and even proposed a tripartite political declaration about its promotion.⁵

As the IRC could not come to terms as to the nature of this document, the negotiations aimed at the grand social pact were concluded with the brief and awkward official announcement that the “social partners took note of the government’s decision to close the negotiations.”

4. Differing expectations – conflicting actions

The Social and Economic Agreement – in the Government's approach – had the goal of securing social backing for its efforts to stabilise the economy and lay down the foundations for sustainable economic growth.

The trade unions’ long wish-list initially gave primary priority to the issue of reforming labour legislation and institutions, but – with the employers resistant to the idea – they put up with moving their claims down the agenda (and even with reviewing the institutions of interest reconciliation only after the TGM had been signed).

Nonetheless, in mid-December 1994 they suddenly returned to their initial approach by rejecting a limited body of amendments to the Labour Code – which had been drafted with their involvement – and re-emphasised their claim for overall institutional reforms (promotion of sectoral collective bargaining and agreements, establishment of conflict management institutions, strengthening of labour inspection). The government was receptive to these issues, but took the position that their resolution required sound professional preparation.

⁴ Finance Minister L. Békesi resigned at the end of February and his place was taken by L. Bokros in early March.

⁵ This proposal was repeated by the Prime Minister in the 5th April 1995 sitting of the IRC, and the draft text of the declaration was handed over, but no answer was received from the social partners, for whom it was still difficult to digest the stabilisation measures, except for MMSZ (Hungarian Employers’ Association) and VOSZ (National Association of Entrepreneurs).

The shift in the unions' approach – as they repeatedly pointed out – was linked to the late November IRC agreement on the 1995 budget and economic policy (Chapter V.) They decided that they “had gone to the final limit of possible concessions” and would not give in any more.

The employers – in their turn – repeatedly expressed their interest in continuing the negotiations primarily of course on economic policy and government measures concerning the business environment. In Autumn 1994 they raised additional issues for discussion and brought up new ideas as to what other proposals and concepts the government was to submit to the IRC, as a precondition to the TGM. The issue of the still non-existent three year economic action agenda became a turning point in the talks also because the employers – seizing on the Finance Minister's readiness to have talks and agree on it – viewed it as a prerequisite to the TGM too.

The relationship of the Government – the Minister of Labour⁶ – and of the social partners became very tense in the most critical phase of the preparation of the Social and Economic Agreement on two labour issues.

Firstly, the employers – in November 1994 – were outraged when the Minister of Labour threatened them that if needed the Government was prepared to pump over financial resources from the Solidarity Fund to the Employment Fund, evading the social partners and the IRC's Labour Market Committee, by initiating an amendment of the Employment Act. The Minister was openly charged with the deliberate neglect of the rules and principles of tripartite interest reconciliation. This conflict, as described in Chapter V, was smoothed over by the November 1994 income policy agreement, but its memories were still vivid in December 1994.

Secondly, the trade unions rejected the Government's proposal for the amendment of the Labour Code – on 14th December 1994 – and were unwilling to revise their approach even at a later stage. The package, among other things, was to make working time regulations more flexible, to meet claims by the employers. It was thought that the changes made the Labour Code more flexible, promoted employers' compliance with labour law, increased employers' motivation to achieve collective contracts, while it did not weaken workers' protection.⁷

Nevertheless the trade unions – primarily MSZOSZ (National Association of Hungarian Trade Unions) and also ASZSZ (Autonomous Trade Unions' Confederation) considered the amendments as detrimental to workers and sharply attacked the Minister of Labour. It was also pointed out that the Government had violated the “unwritten rule” of interest reconciliation, when submitting the draft law to the parliament despite lacking the consensus of the social partners.

⁶ Magda K. Kovács, Minister of Labour (1994-95)

⁷ The original regulation of the Labour Code set the number of working hours – an average 8 hours per day within the daily minimum of 4 and maximum of 12 – for an 8 week period. By the amendment, this period could be extended by collective agreement to 6 months. Similarly, the original legal regulation set the annual upper limit for overtime work at 144 hours for the employee. The amendment made it possible to extend this limit by collective agreement to 300 hours. The rejection of these changes – following the actual needs of the economy and international trends – by the unions was unfortunate. Since then, even MSZOSZ leaders have admitted that they have had a positive impact on the motivation of employers to achieve collective agreements. See: Tóth, F.: *Konszenzuskereső évek. Az Autonóm Szakszervezetek Szövetsége. (Years of Seeking Consensus. The Autonomous Trade Unions' Confederation.)* ASZSZ. Budapest. 1998. p. 100-104.

These developments indicated increasing tensions in the relationship of the Government and the social partners in the period – overshadowed by the imminent measures of economic stabilisation – when the failure of the Social and Economic Agreement could be taken for granted and the Government's behaviour also started to harden.

5. The anatomy of the failure

In the context of the diverging efforts and expectations the major components of failure can be summed up as follows:

- 1) Grand social agreements – the example of which the Social and Economic Agreement was meant to follow – are usually concluded at times of historical turning points, like the years of political change (1989-90). At that time, although the trade unions took part in the National Roundtable Talks, the idea and the need did not emerge. In 1994-95 the initiative was rather belated and linked to a task which was hard to cope with – but still inferior to the challenges of political and economic transformation – i.e. to economic stabilisation.
- 2) The TGM was intended to be an agreement of political strategies for the Socialist-Liberal Government's four year term.

Nonetheless, what was most painfully absent in the negotiations related to it were the political strategies themselves. Unfortunately the government, mostly for reasons beyond its intentions, was not able to come up with an economic strategy encompassing its full four-year term. This strategy should have incorporated major targets and parameters, including the GDP growth rate, the trade and payments balances, the capital flows balance, the rate of consumption, the level of household incomes and wages etc., as well as measures to meet these parameters. In the absence of clear economic policy the government could not deliver its employment, income or social policies, which depended on the economy. If the drafters of the TGM ever fostered any illusions, it was their deep conviction in Summer 1994, namely that economic policies would be in place very soon. The formulation of an economic strategy – as has been described – remained high on the agenda, but in the context of pressing short term economic problems in Autumn and Winter 1994 it was repeatedly thrust into the background and its place was repeatedly taken, understandably enough, by discussion and implementation of the stabilisation measures, aimed at “fire-fighting”, such as the 1994 supplementary budget, the 1995 budget, the March 1995 stabilisation-package and the 1995 supplementary budget.

- 3) The TGM talks predominantly centred around short-term budgetary issues including the 1994 supplementary budget and the budget for 1995.

The discussion of these issues against a background of economic crisis and fiscal austerity yielded failure rather than success to those involved in them. As has been referred to earlier, the unions regarded the achieved agreements as sacrifices on their part, while the employers called into question the government's genuine intention to promote business. At the same time some politicians and experts in the back corridors of the government considered even those agreements as signs of a “softening economic policy”. In a way all parties were right, since the compromises achieved in fact failed to satisfy either side's concerns to the required degree.

On this basis it was realised that the agreements on the 1994 supplementary budget (September 1994) and then on the 1995 budget (late November) did not improve, but

rather damaged, the chances for the general agreement. Even if the government separated the TGM talks from the negotiations on annual issues – which was actually done – the latter, at least from the unions' perspective, had a negative impact on the parties' readiness to meet each other halfway. For contrary to expectations that the agreement on the 1995 budget was going to pave the way towards a TGM, the effect was quite the opposite in that the unions initially in favour of the idea subsequently hardened their positions too.

The final blow came when news of governmental plans to revise the freshly approved 1995 budget and the possibility or necessity of a supplementary budget for the same year were leaked in early January 1995.

- 4) In negotiations focusing on and confined to issues of budgetary redistribution, there was one major aspect of cooperation receiving primary attention: what did the government have (or rather, what was it unable) to offer to the social partners in the IRC?

That was what bogged down the talks before they could have moved on to other areas. Sadly little was said about the following questions: (a) What long-term political objectives and ideological commitments were there to form a common basis for the establishment of a sustainable tripartite cooperation to promote social peace? (b) What could the government, unions and employers do together to ease budgetary constraints, which could be considered as a joint responsibility – albeit to differing degrees – of all three partners? (In such areas as clearly required urgent cooperation e.g. the rationalization of the state household, control over the informal economy or the collection of unpaid budget revenues.) (c) What institutional safeguards other than short-term concessions could be established – on national, sectoral and local level – to guarantee better representation and protection of the interests of the constituencies of the trade unions and employers' associations of the IRC? (d) In what way and by what means could the unions and employers make their contribution to a sustainable social peace, assisting the government in its own efforts?

- 5) Set against the grand idea of the TGM the budget debate at the end of 1994 was a pitiful nosedive.

The government was seeking "social approval" for inevitable, but all the more unpopular, austerity measures of "belt tightening", the social implications of which were to cause the biggest of headaches, and the government could but hope for self-restraint from the social partners. Undoubtedly, the latter did show signs of their willingness to restrain themselves – and to come to terms tacitly with the reduction of real earnings too – which was an absolute necessity against the current economic background and consequently a precondition to a general tripartite agreement. Yet the extent of their willingness did not seem to be in proportion to the government's room for manoeuvre or the seriousness of the situation. The budget debate was conducted along the traditional lines of tripartite negotiations. Budget deals of this type had already been made back in 1991, 1992 and 1993, and the negotiating parties were quite unprepared for talks of a different nature.

The TGM talks therefore sank in the rough waters of the budget deal before they were able to sail on towards a calmer sea, though itself not free of reefs.

- 6) The idea and the initiative of the Social and Economic Agreement (TGM) were based on the assumption that all three partners were highly interested in concluding it. As it soon turned out this assumption was not properly founded. Some organisations among the social partners regarded the pact as a matter of exclusive political interest to the government.

That was why – probably for political motives – they rejected or at least had strong reservations about the initiative right from the outset, while these same organisations together with others also considered the government's commitment to a TGM a sufficient basis for making unlimited demands. That explains why it was not until January 1995 that the social partners began to deal with the draft TGM in various IRC committees and why in fact it never was submitted to the plenary session of the IRC itself, whereas they had insisted that the government should hand over the draft in early November 1994. So that was how "the TGM talks ended before they started" as the Minister of Labour put it in early February 1995.

- 7) Apart from its commitment to the TGM, the government additionally put itself under pressure by setting a deadline for reaching it. This was fixed as (possibly) mid-October 1994, but efforts still continued for another three months. It was not until the end of January 1995 that it became clear that, in the context of the developments described above, even further extensions of the deadline would not yield the expected results. This realisation was certainly a factor contributing to the government's decision to terminate the negotiations. We do not believe that setting a deadline was a mistake in itself. In fact, the most appropriate time to have concluded the Social and Economic Agreement, if ever, would have been when the government started to work. It was not the time pressure that led to the failure, but the developments which occurred and which would have made any deadline an illusion.

It was due to the diverging – or often conflicting – approaches of the government, the unions and employers, to the lack of clear and attractive longer term strategies as well as to the predominance of short term budgetary issues in the IRC, that both the trade unions and employers did their best – albeit on the basis of differing motives and following different courses of action – to postpone actual talks related to the TGM – while it was still on the agenda – but showed deep regret when the government closed the negotiations and pretended not to understand its behaviour.

Overheated expectations, if they do not come true, are followed by deep disappointment. It happened just so after the closure of TGM negotiations in the IRC. National interest reconciliation became paralysed in the context of macro economic stabilisation. In January 1995 an agreement on the statutory minimum wage for that year was still struck, but no further deals followed. It took time for the social partners – and for the government too – to gradually digest the experience of failure related to the attempt at the general agreement and to resume their normal contacts.

6. Lessons for the government

The failure of the Social and Economic Agreement was an obvious shock for the Socialist-Liberal Government, but it did not reverse – or even modify – its strong commitment to social dialogue.

At the same time the Government did learn the lessons of the failed attempt at the Social and Economic Agreement, reshaping its whole future philosophy and behaviour as to interest reconciliation. Its essence can be summed-up as follows:

- 1) The government has to be very cautious as to the public declaration of the political target of any general agreement, as it may get faced right away with the "TGM-syndrome", as it was put by experts in interest reconciliation. If such an initiative at such an agreement is

made, the government's partners are likely to interpret its achievement – regardless of their common interests – as the exclusive political interest of the government and to formulate an unlimited number of concrete preconditions. In this way the government, which normally has the strongest positions in tripartism, becomes the captive of its own publicly declared political target. If the agreement cannot be achieved, it is its failure, it is blamed for it. In less delicate words, by such initiatives the government makes itself vulnerable to political blackmail by the social partners.⁸

The TGM-syndrome is not meant as a negative description of the social partners: it showed their determination to achieve practical results for their constituency.

- 2) Tripartite negotiations are to be concentrated and agreements to be concluded on definite issues – instead of broad and general ones. This – at that time and after the attempt at the general agreement certainly brand new – governmental philosophy served as the foundation for the whole “success story” of interest reconciliation after stabilisation had been accomplished.

In 1996-97, when the IRC resumed its normal annual wage negotiation and the IRCBI became a national institution of wage negotiations for public services a tripartite income policy package agreement was struck – for the first time after a several years' interval – in 1997 (Chapter V) and a series of other tripartite deals was concluded (on the establishment of the Labour Market Fund Steering Committee, of the Labour Mediation and Arbitration Service, on the Labour Inspection Act etc.)⁹

These developments had their own value for the government. They not only demonstrated the existence of a more peaceful “social partnership” to the public – though it was far from being free of discussions and tensions – but they made a positive contribution to its work too. After having been consulted on, the government's decisions and its proposals for legislation gained firmer professional grounds, received much less criticism and enjoyed more support, than before.¹⁰ They met also the expectations of the social partners, as they were eager to achieve definite results and to present them to their constituency.

- 3) The process of interest reconciliation requires empathy, tolerance and flexibility as well as hard work on the details on the part of the government in its contacts with the social partners.¹¹

⁸ In 1996/97 it was extremely difficult to convince the leading politicians of the Hungarian Socialist Party – starting with the Prime Minister himself – to try to evade such traps, as they were strongly committed to national reconciliation of interests and attributed much higher political value to the agreements achieved, than they actually had. A dangerous political process was triggered e.g. by the declaration of the Prime Minister at the end of 1995, that the government was to achieve a general three year agreement in public services. (See Chapter IV.) After all the Three Year Agreement of Public Servants was concluded in March 1996, as a result of extremely difficult – mostly informal – negotiations, followed by frequent manifestations of the TGM-syndrome.

⁹ These issues were included in the trade unions' wish-list presented to the government in December 1995.

¹⁰ Legislation prepared by the Ministry of Labour e.g. was passed by a vast majority having the support of part of the opposition as a general rule.

¹¹ The reader will allow and forgive me a personal note. When sitting down at the negotiating table – as the government's chief negotiator – I followed three principles: to make believe that I was indifferent as to the final outcome of the talks, not to get irritated whatever was said by my partners, and not to set any time limit for the negotiations, even for myself.

The plenary sessions of the Interest Reconciliation Council and the Interest Reconciliation Council of Budgetary Institutions – followed by the mass media – were just the “tip of the iceberg”. The smooth functioning of the system was guaranteed by the everyday working contacts and consultations – between the politicians and experts – of the three parties, by which some of the emerging problems could be settled right away, misunderstandings – and misinterpretations – could be clarified on the spot, and the more difficult and conflictual issues could carefully be discussed from all possible angles, seeking for compromises.

It was thus understandable that in the second part of the Horn Government’s term the social partners mostly gave up their earlier practice of sending harsh “messages” to the government via the press and the IRC’s Ethics and Goodwill Committee was never convened, because it had no cases to be dealt with.¹²

While engaged in intensive talks related to the general agreement the Interest Reconciliation Council was subjected to a hitherto unprecedented test and it was also an achievement – or rather by-product – of this exercise, that the strong points and weaknesses of its bargaining mechanism became exposed and visible over a period of a few months.¹³

The shock of the failure of the TGM and of the Bokros package was so hard for both the government and the social partners that it led in a most understandable way to the formulation of a series of such questions and dilemmas about the whole process of interest reconciliation, as in normal functioning would not have come to the surface. The situation and the problems of course were perceived, evaluated and interpreted by the various negotiating groups, organisations of interest representation or individual participants in differing ways, as was openly manifested later in the negotiations on the “further development of the IRC”, which started in 1996.

It was in this period that the government also arrived at the final conclusion that the IRC was badly in need of reconstruction, decided to initiate this process and worked out those concepts which came to be implemented – at least partially – by its successor, the Conservative Orbán Government in 1999.

The problems were summed up by a well-known expert of national interest reconciliation László Herczog – Deputy State Secretary of the Ministry of Labour (1990-98) and of the Ministry of Economy (1998-) – as follows:

“1) The Interest Reconciliation Council is “gasping for air”, because of its special position in internal politics. It is primarily a labour relations institution, yet it is regularly engaged in negotiations and in agreements on issues, which would need parliamentary decisions. (In Europe the trade unions and employers’ representatives are consulted as to economic measures by the governments, but in our country IRC agreements are concluded on them, prior to or during the debates in parliament, by which the legislators in parliament are rather confused.) 2. The IRC’s role is confused too. It functions like a “mini-parliament” with lesser powers, it consults and modifies draft laws, it is an institutionalised participant

¹² It was established to mediate among the social partners in case of acute conflicts. Its functions were taken over by the regular meetings of the three negotiating groups, convened by the government’s chief negotiator.

¹³ Héthy, L. Anatomy of a tripartite experiment: Attempted social and economic agreement in Hungary. *International Labour Review*. Volume 134. Number 3. 1995. Geneva, p. 361-376.

of legislation. In this process it is a consultative body – it comments on the government's proposals, but at the same time it also modifies them, negotiating budgetary concessions. In addition it is an institution of national wage bargaining between employers and trade unions. 3) The problems in the IRC's functioning originate from its workload and from the diversity of the tasks undertaken by it. When the employers perceive that "the trade unions were granted concessions" in the IRC's negotiations, they also feel that they too should be given something by the government. As no separate institution exists for the lobbying organisations of the employers to consult the government on taxation, on duties imposed on earnings, on economic regulations, the employers' representative organisations in the IRC assume the actual functions of lobbying groups for business, while they neglect issues of wages, employment, and in general of industrial peace. Their aim is to squeeze out the most possible from the government. 4) In fact the IRC should be an institution to guarantee social peace. It is a sign of its distorted functioning, that it is much more than that. That is why the government has to "purchase" the goodwill of both trade unions and employers at a rate of several billion HUF in general. 5) A separate institution for interest reconciliation in economic issues may offer a solution to the problem, but its establishment is up to the decision of the IRC's participants. 6) The Government considers it to be an internal affair of the workers' and employers' negotiating groups to define their composition. The "integration" of their organisations seems to have been started. In a country of this size, the existence of six national trade union confederations and nine employers' associations seems to have involved too much division. The formation of alliances among the national organisations is to be supported."¹⁴

In retrospect it is now appropriate to wonder whether it would not have made sense on the government's part to try and initiate "straightening things out" among the social partners before it sat down to negotiate the TGM. This did not seem advisable for several reasons.

Firstly, in taking an initiative based on – or at least citing – mutual trust and cooperation it would have been a hostile gesture to urge the social partners to prove their legitimacy and support.

Secondly, it would have been difficult to avoid a situation, where the social partners would not have considered that gesture an attempt to interfere with their autonomy, given their discouraging experience with the previous government.

Thirdly, the problem itself was part of a broader set of issues, namely that of reviewing and adjusting the mechanism of tripartite negotiations. It was decided to put it on the agenda following the conclusion of the TGM, taking into account – as far as unions were concerned – the results of the coming elections of Works Councils and Public Servants' Councils, and – in the case of employers – the situation created by the emergence of the chambers of economy.

7. The final balance of the experiment

Even if the termination of the TGM talks can be regarded as a failure of the government and of the mechanism of tripartite negotiations, they did generate results.

On balance, what I see as the positive outcomes of those talks are as follows:

¹⁴ Herczog, L. Interview. Magyar Hírlap, Budapest, 4th January 1996.

Firstly, the process of social dialogue – as a possible way and tool for the government to gain popular support, or at least patience and tolerance for its economic efforts – could be and was maintained even after the failure of the general agreement and also in the context of the implementation of the stabilisation measures called the “Bokros-package”.

Thanks to these talks among other things, the country was able to survive the extremely difficult years of 1995-6, without open nationwide manifestations of public dissatisfaction, although a small spark would have been most probably enough to set it on fire. In the European democracies much milder hardships have taken people to the street.

It should be emphasised that the trade unions had their important share in smoothing down or keeping under control public dissatisfaction, even if they sharply criticised – not without justification – some of the particular measures of stabilisation and resulting drops in real earnings and standards of living. Less reasonable and pragmatic organisations of labour could have tried to profit from public dissatisfaction – with sure success.

As a result the failure of the Social and Economic Agreement and the Bokros-package had a negative impact on the prestige and public support of the trade unions as well.

Secondly, far from insignificant partial agreements were actually reached (e.g. on the 1995 budget and economic policy, separate agreements with the health workers and other groups in public services).

Thirdly, tripartite negotiations became more substantive and intensive, as opposed to earlier practices. This made it possible for unions and employers – the key actors of the economy – to get first-hand information about the government's intentions, endeavours and motives, while the government in turn received feedback on its proposed actions and their expected social implications.

Chapter VII

THE PUZZLE OF REPRESENTATIVENESS

The Interest Reconciliation Council arrived at an agreement on 17th May 1996 that unions' and employers' participation in the institution would be dependent on their membership support, i.e. representativeness as it is commonly called in labour relations literature. This agreement – although it was not given front page headlines in the daily press – signalled the beginning of a new period in the development of Hungary's tripartism.

In the new pluralist democracies of Central and Eastern Europe it is natural that a great number of – often competing – social associations are established to represent the interests of the same social groups. In institutions based on interest representation – primarily in politics, but also in labour relations – it has to be decided which of these organisations are entitled to be present and what is the relative weight of their say. As a general rule, it is the support they enjoy in their constituency i.e. their representativeness, which is decisive. That is why the political parties are subject to periodical tests of their support and representativeness – parliamentary and municipal elections – and they have to meet certain minimum criteria of support to get into parliament or local government and to prove a majority support to be in a position to govern. Similar tests – or proofs – of representativeness are needed in the institutions based on representation by trade unions and employers too. Procedures to test public support or representativeness were built up during or after the political change – following the examples of the Western European democracies.

In national labour relations systems it is a must to clarify representativeness. Internationally too it is a requirement by both the International Labour Organization (ILO) and the European Union that the workers and employers be represented by their “most representative” or “representative” organisations in the decision-making processes of these organisations.

1. Why is it important?

In Hungary the representativeness of both trade unions and employers' associations was put on the agenda by the political change which resulted in

- a) the disintegration of past monolithic structures (such as SZOT – the National Council of Trade Unions – or the Hungarian Chamber of Economy);
- b) the pluralisation – or fragmentation – of the institutional representation of both workers' and employers' interests i.e. in the appearance of a great number of "newly formed" and "successor" organisations;

- c) the decline in their membership as the quasi obligatory membership of unions and employers' associations came to an end.

Representativeness – in a sense a synonym of legitimacy – had to be proved on several differing – although interrelated – levels of labour relations:

- 1) on enterprise level to decide which trade union(s) is (are) entitled to sign a collective agreement;
- 2) on sectoral (branch) level to fix which trade union(s) and employers' association(s) are in a position to conclude a sectoral collective contract;
- 3) on national level to set criteria for participation in bipartite or tripartite institutions.

Examples of the former were the bipartite Self-Governments of Health and Pension Insurance (made up of representatives of workers and employers), and of the latter the tripartite Interest Reconciliation Council (IRC).¹

It is needless to say that by the mid 1990s representativeness became not only a topical but an extremely controversial issue burdened with political and ideological debates, despite (or because) of the considerable progress which had taken place in the clarification of the representativeness (of trade unions) for the years since the political change in 1990.

2. Who is entitled to conclude collective agreements?

On enterprise level criteria for trade union representativeness were set by the Labour Code (1992).²

It identified Works Council elections as the major machinery for testing the support of labour organisations and the results achieved by them in these elections as the quantitative indicator of their representativeness. Similarly, public service union representativeness is derived from the Public Servants' Council elections by the Act on the Legal Status of Public Servants (1992).

Works Councils and Public Servants' Councils – these bodies of workers' participation – were elected for the first time in May 1993, the second such elections took place in May 1995, while the last ones were in November 1998. The trade unions were given the right to propose candidates and the number (ratio) of the votes received by their candidates served as the indicator of their representativeness.

Those trade unions were looked upon as representative, which received at least 10% of the votes in the Works Council and Public Servants' Council elections. Representative trade unions were entitled to carry on collective negotiations with the employers and the employer – according to a 1997 amendment of the Labour Code – was not permitted to refuse an initiative to bargain if made by a representative union.

¹ In addition, representativeness gained emphasis also in the international relations of both Hungarian unions and employers: delegation e.g. to the International Labour Conference (of the ILO) was also to be based on it.

² Act No XXII. of 1992 on the Labour Code. Works Councils are elected at employers with more than 50 employees in the business sector. Public Servants' Councils are elected at employers with more than 15 employees, as prescribed by Act No. XXXIII. of 1992 on the Legal Status of Public Servants.

Nonetheless, the trade union had to have more than 50% support by the workers (as proved by the votes at the elections) to be in a position to conclude a collective contract. If there existed two or more trade union organisations at the employer, the collective agreement could be concluded together by all of them or by those which were representative, if their support amounted to above 50% when added together. In the presence of several representative trade unions, one of them alone was entitled to conclude a collective contract only if its own support exceeded 65%.

In the absence of the necessary (50%) representativeness of the trade union(s), the collective negotiations could be carried on and completed, but the contract achieved had to be approved in a voting procedure by the workers.

Trade unions uniting at least two third of the workers belonging to the same trade (craft) were considered as representative too.

On sectoral (branch) level the Labour Code did not provide precise criteria of representativeness, although it laid down certain general requirements³, while it did not deal with national level representativeness at all. Nonetheless, it opened up the way – at least for the trade unions – for the creation of national level indicators of representativeness, by summing up the results of Works Council elections.

The Act on the Legal Status of Public Servants provides more solid legal foundations for the measurement of at least union representativeness in public services, to be discussed later on.

The legal formula of linking trade union representativeness to Works Council and Public Servants' Council elections was a rather special – if not unique – Hungarian invention in the early 1990s, as these bodies constituted the “second channel” of workers' representation and were supposed to function independently of the trade unions, after they had been set up.⁴

3. The selection of bodies in control of insurance funds

In 1993 bipartite Self-Governments (made up of workers' and employers' representatives) were set up to take care of the Health and Pension Insurance Funds, made up of contributions by employers and workers and financing the health service and the pension system.⁵

The Self-Government of Health Insurance consisted of 60 people of whom 30 represented those “entitled to the services” and 30 represented the employers.

The Self-Government of Pension Insurance also numbered 60 people, 36 representing those “entitled to the services” – among whom there were 4 representatives of the pensioners and 24 representatives of the employers.

³ On sectoral (branch) level certain criteria of representativeness are referred to by the Labour Code, as preconditions to the extension of multi-employer collective contracts by the Minister of Labour. For the representativeness of trade unions “the number of membership” and “support by the workers” – as indicated by the Works Council election results – are mentioned, while for the representativeness of employers' associations the “number of membership”, their “economic importance” and the “number of those employed by them” are quoted.

⁴ In practice Works Councils and Public Servants' Councils were occupied in most cases by the trade unions: the trade union's president being the president of the Council too. Such practices were not prohibited by the Labour Code, but were diametrically opposed to the principles these institutions were built upon.

⁵ The Self-Governments of Pension and Health Insurance were based on Act No. LXXXIII. of 1992 on the Self-Governing Administration of Social Insurance as a legal foundation.

The self-governments had a 4 year mandate.

The (s)election of the Self-Governments was a much-debated process, seriously burdened by the political and ideological biases of the first Conservative Government. Legislation⁶ (1991) ordered that employers' representatives be delegated by the national employers' associations, the representatives of pensioners by the National Chamber of Pensioners, while the "representatives of those entitled to the services" be elected at special elections "with the participation of all voting citizens". Another act⁷ (1993) contained the provisions for the 1993 elections of workers' representatives, covering also minimum criteria of representativeness for trade union confederations (or coalitions) willing to participate in the elections.

The (s)election of the Self-Governments was much criticised by the trade unions. In their view these elections

- 1) went far beyond their original functions, i.e. to elect workers' representatives, as they tested the support of trade unions not only among their members and the workers, but among voting citizens in general.⁸

Table No 7: Elections to Hungary's social security authorities (May 1993) – % of votes

	Pension insurance	Health insurance	Total
ASZSZ (Autonomous Trade Unions' Confederation)	4.8	5.3	5.0
ÉSZT (Confederation of Professionals' Unions)	6.2	6.8	6.5
The "League" (Democratic League of Independent Trade Unions)	10.1	13.1	11.6
MSZOSZ (National Association of Hungarian Trade Unions)	50.1	45.2	47.7
MOSZ (National Association of Workers' Councils)	10.9	12.8	11.9
SZEF (Trade Unions' Co-operation Forum)	10.6	8.4	9.5
Other	7.3	8.4	7.8
Total	100.0	100.0	100.0

Source: IRC, based on a National Election Committee report

⁶ Act No LXXXIV. of 1991 on the Self-Governing Administration of Social Insurance.

⁷ Act No XII. of 1993 on the Election of Representatives (to the Self-Governments) of Social Insurance in 1993. Candidates could be proposed by national trade union confederations (registered by the court) having 1) registered member organisations in at least 3 branches – and in at least 10 sub-branches – of the national economy 2) registered member organisations in at least 5 counties, 3) registered member organisations at a minimum of 100 employers.

⁸ That is why some trade union confederations which had insignificant membership and support from the workers got positions in the Self-Governments of Social Insurance e.g. KESZOSZ, the Confederation of Christian Social Trade Unions. It should be noted, however, that the relevant acts refer to representatives of those "entitled to the services" and not to representatives of workers.

- 2) were discriminatory against trade unions as they were subject to a tiring, time-consuming and costly election campaign, while employers were put in a position to simply delegate their representatives.

The issue of the (s)election of the Self-Governments of Social Insurance was put once again on the agenda in 1997 as the first bodies had a four year term in office, which expired in May 1997.

As legislation prescribed elections only for one occasion (1993) it was unlikely that the Socialist-Liberal Government would push for the repetition of these elections as their justification was highly debatable and they were resisted by all of the big trade union confederations, although favoured by one or two smaller ones.

Instead delegation became the general rule. Delegation was made possible for those national trade union confederations and employers' associations, which had declared their claim to be represented and had provided proof for the National Election Committee as to their meeting the minimum criteria of representativeness as fixed by legislation. These criteria were identical for the trade unions and employers, in fact they had been mechanically taken over from Act No XII. of 1993 on the Election of (union) Representatives to the Self-Governments of Social Insurance.

This regulation provided equal conditions for the national trade union confederations and employers' associations.

The 1997 renewal of the Self-Governments of Social Insurance was the first – and hitherto the only – occasion, that the representativeness of employers' associations was tested.

It was an important step forwards, even if it was overshadowed by the fierce conflicts around delegation both in the ranks of unions and employers. The conflicts themselves seemed to prove that tests of constituency support were very much needed on the basis of clear and democratic rules. The process however was somewhat depreciated by the fact that the organisations of interest representation did not obtain their seats in the self-governing bodies on the basis of their actual support, but by meeting certain minimum criteria of representativeness and by negotiating the distribution of the seats.

The conflicts originated just from the fact that the ratios of delegation – i.e. the number of seats to be occupied by the individual trade union confederations and employers' associations – were left for the agreement of the organisations qualified as representative on the basis of the law.

On the workers' side MSZOSZ (National Association of Hungarian Trade Unions) made aggressive efforts to maintain its earlier predominant positions, confronting SZEF (Trade Unions' Cooperation Forum), the large public service trade union confederation. SZEF presumably had a more solid membership support at that time than MSZOSZ. MOSZ (National Association of Workers Councils) was also dissatisfied with the positions offered to it, and refused to occupy its seats.⁹

⁹ In the complicated bargaining process MSZOSZ mostly retained its predominant positions, but it had to withdraw from the presidency of the Self-Government of Pension Insurance, leaving it for an employer candidate.

Among the employers, two coalitions competed with each other and tried to acquire more seats than the rest of the employers' organisations – on the one hand MMSZ-MGYOSZ (Hungarian Employers' Association and National Association of Hungarian Manufacturers) and on the other hand VOSZ-STRATOSZ (National Association of Entrepreneurs and National Association of Strategic and Public Utility Companies). As a result MMSZ-MGYOSZ obtained a symbolically higher number of seats than the others and STRATOSZ acquired seats too.¹⁰ (See Chapters II and III)

In January 1997 also the Labour Market Fund Steering Committee (LMFSC) was set up (Chapter II). Unlike the Self-Governments of Social Insurance, it is a tripartite body of 18 people, of whom 6 represent the workers, 6 the employers and the government also has 6 representatives.

For the LMFSC the law – a 1996 amendment of the Employment Act¹¹ – prescribed delegation. The workers' and employers' representatives were to be delegated to it by the national trade union confederations and employers' organisations which had seats on the Interest Reconciliation Council. It also added that if no agreement could be achieved among these organisations, then the ratios of the financial contributions to the Labour Market Fund of their membership should be taken into account. Similarly, the members of the local (county-level) tripartite Labour Market Councils, disposing of local employment money, were to be delegated by the local organs of the above mentioned national level organisations.

That is, in the case of the LMFSC, legislation still opted for delegation by the national workers' and employers' organisations which were present in the Interest Reconciliation Council.

Nonetheless, this development – like the delegation by the employers to the Self-Governments of Social Insurance previously in 1993 – did provoke once again the basic question: if delegation was based on representativeness, and the right of delegation went to the national trade union confederations and the national employers' associations of the IRC, then what actual publicly visible and documented support did the organisations themselves have which made up the employers' and workers' negotiating groups of the Interest Reconciliation Council?

4. Participation in interest reconciliation based on “invitation”

The workers' and employers' organisations secured their place in the IRC because in 1990 the then ruling first Conservative Government – without prying into the question of representativeness – invited all the then existing trade union confederations and employers' associations to the interest reconciliation table.

¹⁰ The above coalitions seemed to indicate the difficulties of the organisations of “big employers” in proving their minimum representativeness, because of the cross membership of a number of big companies, their lack of regional structures etc. STRATOSZ – which still had no seat in the Interest Reconciliation Council at that time – could rally the support of the large Hungarian State Railways (MAV) and some other companies, which MMSZ and MGYOSZ also considered as their members. The bitter confrontation of the organisations of “big employers” included complaints submitted to the National Election Committee, mutually questioning the representativeness of each other.

¹¹ Act No. XVIII. of 1996 on the amendment of Act No. IV. of 1991 on the Promotion of Employment and on the Care of the Unemployed.

As mentioned before, it was ironically remarked by some political analysts that "Those organisations whose representatives happened to be in the room quickly sat down at the table and that is how the IRC was established."

The tripartite council was created on the basis of a governmental decree by the agreement of its participants and it had no other foundation in legislation. The Labour Code limited itself to the declaration that the "Government consults the national organisations of workers and employers about labour relations and employment relations issues of national importance in the Interest Reconciliation Council " and made reference to certain functions of the tripartite institution (e.g. in setting the minimum wage). It contained however no provisions for its structure, the selection of its participants etc. The IRC's functioning was regulated by its own Statutes (adopted in 1991 by the three sides).

Neither legislation nor the Statutes dealt with representativeness.

In the IRC in the workers' negotiating group 6 trade union confederations, while in the employers' negotiating group 9 employers' associations, had seats.

In the mid 1990s the IRC became a focal point for debates about representativeness. The support its member organisations enjoyed was an issue of utmost importance in itself as the tripartite council – as was amply described in the previous chapters – had an influence over both governmental decision-making and legislation. In addition, as several other bipartite and tripartite bodies tended to derive their own representativeness – and perhaps also their legitimacy – from that of the IRC – as was earlier discussed – the importance of the issue kept growing in the years of the Socialist-Liberal Government.

Still the IRC had – obviously for historical reasons – the weakest foundations in the Hungarian labour relations system, on the basis if not of the actually existing membership support of its unions and employers, then of their documented and publicly visible representativeness.

In 1996 legislation about the establishment of the tripartite Labour Market Fund Steering Committee – based on a tripartite agreement achieved in the IRC – still provided the trade unions and the employers of the tripartite council with the exclusive right to delegate their representatives to this new body. This settlement was accepted by the government – and parliament – under pressure by the IRC's unions and employers.

In 1997 – when the renewal of the Self-Governments of Social Insurance was put on the agenda – the government and its experts already found it problematic to bestow the right of delegation on the unions and employers of such a tripartite body, where their presence was not dependent on clear and democratic rules, i.e. on the fulfilment of criteria of representativeness. Although the formula of delegation by the IRC's unions and employers was accepted and approved in their meeting with the prime minister at the beginning of the year, the government – concerned by the absence of clear and democratic rules within the IRC – revised its approach later on. It was argued that the exclusive right of the IRC's unions and employers to send their representatives to the new Self-Governments of Social Insurance could raise constitutional problems.

That is how the final settlement – as described above – was accepted.

The Interest Reconciliation Council of Budgetary Institutions (IRCBI) – which was second in rank in social dialogue to the Interest Reconciliation Council – had somewhat more solid foundations as to regulations for participation in it.

This institution was constituted by four negotiating groups: those of the Government, of the associations of municipal governments, of the employer institutions in public services and of the public service unions (Chapter II).

The Interest Reconciliation Council of Budgetary Institution – unlike the IRC – had a leading role in setting up and adhering to criteria of national level representativeness for unions. The measurement of representativeness was linked to the results achieved at the Public Servants' Council elections by the Act on the Legal Status of Public Servants.¹² A minimum 10% of the votes was required on national level, on the level of the municipal governments or of the institutions to qualify a union representative. National level representativeness was needed for the union confederations and federations to exercise their full rights in the Interest Reconciliation Council of Budgetary Institutions.

Nonetheless, it was a painful weakness of this institution too that representativeness – while being clarified on the part of the public service unions – was left in shadow on the part of the organisations of the local governments and of the employer institutions. The uncertainties about their representativeness contributed to the difficulties in the implementation of the national wage agreements achieved.(Chapter IV.)

As years passed by – and the internal relations of both unions and employers got more consolidated – it became a more and more pressing task to cope with the issue of representativeness in the IRC as well. Progress on this was urged by the government and by some unions (MSZOSZ, ASZSZ, SZEF) and employers' associations (MMSZ, Hungarian Employers' Association).

In May 1996 – as referred to at the beginning of this Chapter – an agreement was achieved in the IRC to set up criteria of "publicly visible and documented representativeness" and to make the IRC's sides "open" to follow changes in the representativeness of the workers' and employers' organisations.¹³ It was also agreed that these criteria would be worked out by the workers' and employers' negotiating groups themselves and fixed in their agreements.

It could be expected that the IRCBI would also make efforts sooner or later to cope with the task of setting up criteria of representativeness for its negotiating groups of local governments and employer institutions.

By 1996 it became obvious for most participants of national interest reconciliation, that the absence of clear and democratic regulations for participation – based on representativeness – could no be longer tolerated either in the IRC and IRCBI – which had their role in public policy formulation and in preparation of legislation – or in the Self-Governments of Pension and Health Insurance and the Labour Market Fund Steering Committee – which disposed of the largest separate state funds outside the state budget.

¹² Act XXXIII of 1992.

¹³ Tájékoztató az Érdekegyeztető Tanács 1996. május 17-i üléséről. (Information on the 17th May 1996 sitting of the Interest Reconciliation Council.) Magyar Közlöny. Budapest, No 42/1996.

5. Progress halted half way

In the process of tripartite negotiations and in their relationship to the social partners the Antall and Horn Governments started out from the autonomy of the employees' and employers' negotiating groups – as laid down in the IRC's Statutes (1991).

In practice this meant that the governments did not interfere in how these negotiating groups developed their composition and what internal regulations they adopted, as a general rule. It was up to the workers and employers themselves of the IRC too to decide whether they would accept a new member or exclude an organisation from their ranks.¹⁴ The internal regulations set by them called for consensus in such decisions.

The governments' policy could be looked upon as a manifestation of their self-constraint. If they had wished, they could have set up criteria of national-level representativeness and could have regulated participation in the tripartite council by law – as was done for the enterprise level representativeness of unions. Instead the possibility was offered both for the unions and employers to proceed with their much needed "self-organisation" in the period of transition. The unions and employers were also keen to safeguard the autonomy of their sides in the IRC – as a measure of self-defence.¹⁵ This autonomy could not and should not annul however the joint tripartite obligation – laid down in the May 1996 IRC agreement – that the workers' and employers negotiating groups set up publicly visible and documented criteria of representativeness.

In fact, hard work started on the basis of the agreement, but it was halted half way.

Progress was achieved by the workers' negotiating group resulting in an agreement signed by all of the six trade union confederations in December 1996 and January 1997.

This agreement fixed that trade union membership and the results of the 1998 Works Council and Public Servants' Council elections were to serve as a basis for the future measurement of representativeness: 10% of global national trade union membership and 10% of the votes of Works Council and Public Servants' Council elections were to be needed to qualify a confederation for a seat in the IRC's workers' negotiating group.¹⁶

The agreement – taking into account the results of the earlier tests of representativeness – also provided the individual confederations with differing weights in the decision-making process of the negotiating group – ranging from 8 for MSZOSZ to 1 for the Workers' Councils – while decisions could be taken by ¾ majority and with the approval of at least 4 confederations.

¹⁴ In 1993 e.g. the workers' negotiating group of the IRC practically "cast out" the unimportant and disruptive Solidarity Trade Union Confederation of Workers (not to be mistaken for Polish Solidarity), which held extremist political views, and it successfully managed to take a stand against legitimising doubtfully supported trade union initiatives (e.g. KESZOSZ, the Confederation of Christian Social Trade Unions).

¹⁵ Representativeness in several countries, including Belgium or Bulgaria, is regulated by laws. In Bulgaria, e.g. the Labour Code of 1993 contained definite criteria for national level representativeness for both trade unions and employers organisations and the lack of meeting these criteria excluded several interest representation organisations from national level tripartism.

¹⁶ The two small "newly formed" confederations opposed the terms of the agreement and joined it under pressure from the big ones. In the new political atmosphere after the 1998 parliamentary elections, the reservations of the two small confederations became predominant and prevented the national summing-up of the results of the 1998 November Works Council elections and in this way the practical implementation of the agreement, which risked their expulsion from the IRC.

In contrast, the employers' associations in the IRC could not set any mutually acceptable criteria of representativeness.

The employers' negotiating group kept a tight control over its own "ring of wagons". Its composition had remained unchanged since 1990. At the same time it was distressed to lack such indisputably significant new employers from its members as the financial sector (banks and insurance companies) or the growing number of multinational companies. Another unsolved problem was the acceptance of STRATOSZ, the employers' association of large public utility companies, which had failed to get a seat in the IRC, although internationally it had been accepted as a member of CEEP of the European Union. (Chapter IV.)

As was pointed out earlier, in the period of political change – in the absence of legislation on and of a legal definition of employers' organisations¹⁷ – almost all social associations were acknowledged as employers' organisations in Hungary, once they declared themselves as such.

However the extent to which individual craftsmen, retail traders, agricultural small-scale farmers or cooperatives could be characterised as employers was rather doubtful – although there must have been such examples. Another question to put was: how much did these organisations uniting the Hungarian entrepreneurs and companies act as employers' representative bodies and how much were they the representatives of economic interest groupings?¹⁸

Even in the absence of more profound information about the Hungarian employers' associations it could be said that only some of them seemed to meet the general internationally accepted criteria for such associations (MMSZ – Hungarian Employers' Association, MGYOSZ – National Association of Hungarian Manufacturers or VOSZ – National Association of Entrepreneurs).

Bearing in mind the heterogeneity of the Hungarian "employers" associations, it was no wonder that it proved to be an impossible task for the employers' negotiating group in the IRC to set up such uniform criteria of representativeness, as could flexibly adapt to the very much differing characteristics of the individual organisations.

The Labour Code – which relied on international practices – did offer important and unambiguous points of orientation. It referred to "membership numbers", "economic importance" and "number of those employed" as the major indicators of the representativeness of employers' associations on sectoral (branch) level, which seemed to be perfectly applicable at national level too. But they were not accepted and applied by those concerned.

If the criteria suggested by the Labour Code – and international practices – had been accepted and applied, it would have reinforced – very justifiably – the positions of the big employers in the Interest Reconciliation Council and the rest of the institutions based on employers' representation, at the expense of the small employers, causing serious losses to them.

As the IRC's employers' negotiating group was dominated by the small employers – as described in Chapter III – and its decisions were taken by either majority vote or consensus,

¹⁷ Legislation was adopted, however, about economic chambers, i.e. bodies of (mostly) employers acting as public authorities, with obligatory membership.

¹⁸ In the terminology of the European Union – of the Economic and Social Council – these organisations represented not so much employers but rather "various interest groups".

there was no hope whatsoever that such criteria of representativeness would be accepted and applied – regardless of any hints by the Labour Code or any international practices – as undermined or even depreciated the positions of the small employers. They were determined to keep to their positions and not to give up a square millimetre of their power base.¹⁹

The big employers also shied away from pressing for criteria of representativeness, even if those could have been favourable to them. They were frightened by the possibility that the establishment of clear and democratic rules for participation would open up the way for the accession of new associations of powerful employer groupings, with whom they would have had to share their positions, and thus in the end they would have become not winners, but losers from the whole exercise. (It was for the same reason that MMSZ bitterly and successfully resisted the accession of STRATOSZ to the IRC for a couple of years.)

In this short-sighted approach no attention was paid to the fact that the absence of clear and democratic rules tended to undermine the whole status and prestige of the tripartite council itself, including those of its employers too.

While – despite strenuous efforts – no progress was achieved by the employers’ negotiating group, much time and energy was spent on the invention of “arguments” and “justification” for the desirability of the conservation of the status quo, at least as to the employers’ presence and activities in the IRC.

Firstly, it was argued, that the IRC’s nine employers’ associations fully covered the whole spectrum of Hungarian business sector employers – as even some multinational companies and banks were registered as members of the organisations already within the tripartite council. Due to this “fact” and to the already large number of employers’ associations within their negotiating group, it was recommended that newcomers should join one of “the nine”.

It was beyond any doubt that the representation of employers’ interests was highly pluralized (and divided) in the Interest Reconciliation Council and the accession of new employers’ associations would have made coordination even more difficult and troublesome.

Still it was hard or impossible to accept and approve that certain employers’ organisations – the “founders” – would be secured in their seats for ever, while others – the newcomers – would not be given any chance to get in, just because of the absence of clear and democratic rules for accession, based on criteria of representativeness, in the context of the expanding world and the profound transformation of the employers themselves.

If for a newcomer employers’ association the only way for accession had been via “marriage” to a founder employers’ organisation, it would have contradicted the fundamental principles of any democratic institution. It would have put it into a situation similar to that of a political party, for which the only way to get into parliament was to join another political party with a hereditary legislative position, without electoral competition.

¹⁹ The problems of employers’ representativeness were publicly exposed by the author of the present book for the first time in January 1996 in a paper in the daily Magyar Nemzet. At that time the new Minister of Labour Peter Kiss was engaged in a series of visits to the employers’ associations and most of his time was spent in listening to complaints from the leaders of small employers, who were outraged by the simple fact that a high-ranking representative of the government – in fact the political state secretary of the Ministry of Labour – had the courage to raise the issue. After having calmed down, they participated – with some reluctance – in the negotiations, which led to the 17th May 1996 tripartite agreement on the major principles and directions of the reconstruction of the IRC.

Secondly, there existed another view, which was open to the accession of new members, but held that the equality of the participants should be maintained in the employers' negotiating group.

"The IRC is not like the parliament and it is not necessary to follow the parliament's working rules," it was argued. "The IRC is something like the United Nations General Assembly, in which all of the member states are considered equal and have one vote."

Disregarding the conditions which made this comparison false – namely that the permanent members of the UN Security Council have more rights than the other member states – one had to admit that the IRC was different from the parliament: the negotiating groups were not supposed to follow party fractions, nor the tripartite body's functioning to imitate that of the parliament.

Nonetheless, this argument did not justify the employers' non-adherence to the May 1996 IRC agreement and their reluctance to set up criteria of representativeness for their individual organisations and for the whole of their negotiating group.

The ideologies invented by the employers in their tense situation have not been presented for the amusement of the reader – although they have many amusing features – but in order to illustrate the hopeless Sisyphus-like efforts of the employers to find a solution to the puzzle, or rather to try to evade the seeking of such a solution.

In 1996-97 the Socialist-Liberal Horn Government – and its Ministry of Labour – had no intention of confronting the employers' associations and tried in vain to offer a helping hand for them, while it kept quietly but stubbornly repeating its fundamental thesis that the Interest Reconciliation Council's credibility and effective functioning could not be maintained in the absence of clear and democratic rules as to participation in it, based on criteria of representativeness.

6. The need for organisational integration

For the IRC to have credibility it was essential that both the trade unions and the employers' associations appear in the tripartite arena as legitimate partners of the government, drawing on considerable support from their constituencies, the workers and employers. At the same time this support had to be documented and made visible to the public.

In a sense, it was almost indifferent whether the negotiating groups were constituted by bigger or smaller organisations, if their common support met expectations and if there existed internal rules providing the individual organisations with rights corresponding to their relative strength, in terms of membership support or economic power.

The "devil's dilemma" – to which the honourable tripartite body failed to find a full and satisfactory solution throughout its whole life-cycle – required a sound workable compromise between two contradictory – or conflicting – requirements:

Firstly, both the trade union confederations and the employers' associations were motivated to set up such criteria of representativeness as allowed for a public image of united membership support and strength for their negotiating groups, as they appeared in the tripartite council as "groups" and not so much as individual organisations.

Secondly, some individual trade union confederations and employers' associations – referred to as the “big ones” – also had an interest in adopting such criteria of representativeness as provided them with a voice corresponding to their relative support and strength, allowing space for the democratic functioning of the negotiating groups and of the IRC.

These latter efforts were bitterly opposed however by other organisations as they would have destroyed the “myth of equality” on which the IRC's practices and their own positions were built.

That is why the employers failed to cope with solving the puzzle.

Nonetheless, the solution offered by the trade unions raised serious doubts too.

The unions' 1996 agreement – as referred to – set 10% minima shares in the total trade union membership and in the votes of the Works Council and Public Servants' Council elections as a precondition for a confederation's presence and participation in the IRC's work.

It did not need complicated calculations to forecast that this regulation – on the basis of the well-known data of the unions' support – guaranteed secure seats for the three big confederations – for MSZOSZ, SZEF and ASZSZ – in the IRC and its workers' negotiating group, while it almost openly questioned the further presence and participation of the rest of the trade union confederations – the League, the Workers' Councils and ÉSZT.²⁰

Disregarding the possible emotional motives of some old reformed confederations and their leaders this settlement was obviously counter-productive, as the expulsion of the small trade unions from the workers' negotiating group would have weakened the representativeness of the group as a whole, and would have narrowed down the scale of interests represented by it. In addition the expulsion of the newly formed League and Workers' Councils would have revived old political and ideological charges against the old reformed unions and would have caused confusion in the international contacts of the labour organisations too.²¹

The unions' 1996 agreement offered a solution which seemed to meet the requirements – it fixed clear and democratic rules for participation based on actual well-founded criteria of representativeness – but it seemed to work against the major mission of the whole exercise: to present the strong support of the whole of the workers' negotiating group by its constituency to the public and to the political actors.

The total representativeness of any negotiating group cannot be reinforced by the expulsion of organisations which can be considered as of certain importance, and by the acceptance of other organisations, the importance of which is doubtful.

While well-founded criteria of representativeness to orient and support such decisions are very much needed, one has to be extremely cautious with regulations based on them.

²⁰ According to the data described in Chapter III none of these three confederations had a 10% share either in the total trade union membership or in the votes of the earlier Works Council and Public Servants' Council elections. In our view a 5% threshold would have better served the targets of the exercise.

²¹ ICFTU (International Confederation of Free Trade Unions) has both the League and – after many years' debate – the big old reformed confederations among its members too.

While the employers were keen to keep their negotiating group intact and united – because of mature wisdom or mere impotence – and resisted the constraint to adopt criteria of representativeness and to formulate clear and democratic internal regulations, the predominant big trade union confederations – primarily MSZOSZ – were so eager to put their ranks into order, that they were willing to sacrifice even part of the total membership support of their negotiating group and to risk unwanted tensions and conflicts in their internal and international contacts.

As a consequence, in 1997-98 the employers' negotiating group closed ranks, while in the workers' negotiating group the earlier conflicts between the old reformed and the newly formed unions flared up once again.

None of these developments were promising for the outcome of the ongoing reconstruction of Interest Reconciliation Council.

Nonetheless, the general solution to the puzzle in principle was easy and within reach: the fusion or integration of the highly pluralized and divided organisations of interest representation, urged by several leading figures of the unions and employers' associations – and also by the European Union.

All the headaches of the employers' negotiating group could have been put to an end, if they had agreed – following the example of other countries²² – to set up a common “umbrella organisation”, meeting any requirement of representativeness based on any criteria. Such a united employers' association would have had and could have proved the support of such a wide circle of employers – big ones and small ones, regardless of those who were absent – that its representativeness simply could have not been questioned, either in the national tripartite arena or in the international labour relations arena, including that of the International Labour Organization (ILO) or the European Union.

For the establishment of such joint organisation the conditions, in 1997-98, were unfortunately still missing, although the international constraints had already appeared on the horizon.

It was under international constraints, that a couple of employers' associations – such as MMSZ, MGYOSZ and VOSZ – became engaged in repeated attempts to create a joint “umbrella organisation” for their international representation – but these efforts did not yield results for one or two years. It was only as late as 1998 that the Hungarian Employers' Confederation for International Cooperation was finally born. It was in this year too that MMSZ (Hungarian Employers' Association) and MGYOSZ (National Association of Hungarian Manufacturers) decided on their integration under the name MMSZ-MGYOSZ.

The employers' associations could have drawn upon the wide and strong membership support of the chambers of economy too, if they had cooperated and had not engaged in rivalry with them. The chambers functioned as public authorities and relied on mandatory membership.

The trade union confederations have repeatedly cherished the idea of organisational integration too – news appeared about the possible fusions of the League and ASZSZ (Autonomous Trade Unions' Confederation) as well as of SZEF (Trade Unions' Cooperation Forum) and ÉSZT (Confederation of Professionals' Unions) in public services – but no practical progress has been achieved as yet.

²² E.g. of Poland. See Chapter I.

7. Absence of regulations or support?

The absence of clear and democratic regulations as to participation in the Interest Reconciliation Council should not be taken to mean that its participants – trade unions and employers – lacked the support of their constituencies. Such an interpretation of the state of affairs within the IRC would be unfair and unfounded.

The IRC's labour and employer organisations could mobilise most probably masses of workers and entrepreneurs, even if they could not prove their representativeness on the basis of criteria which had not been fixed and were very difficult to set up. This assumption was backed also by the fact, that at least part of these organisations – the trade unions – had been successful in similar tests.

Despite the lack of such criteria in the IRC several tests of national level representativeness took place in the early 1990s, in which the trade unions and the employers had differing roles.

What can be undoubtedly declared about the workers' organisations is that there are no other social associations – with the exception of political parties – which were submitted to so many repeated public tests of support as the trade unions in the four-year period after 1990 – thanks to the attention (even if not the sympathy) of the first freely elected parliament and the first Conservative Government (Chapters I and II).

In Summer of 1991 one of the notorious trade union acts²³ obliged the reformed trade unions – based on the past member organisations of SZOT (National Council of Trade Unions) – to renew the check-off authorisations for their membership fee deductions. From a practical point of view this meant that the members had to declare whether they wanted to remain members of those organisations in the future.²⁴ Elections of Works Councils and Public Servants' Councils were held in 1993 and 1995 and also elections for the Self-Governments of Health and Pension Insurance took place in 1993. They definitely proved the representativeness of the trade union confederations, their support by their members and by the workers and – above and beyond that – by the voting population in general.

The results are well-known.

The confederations which had been established by the reformed trade unions – i.e. MSZOSZ, ASZSZ and SZEFG – proved considerable support by their members and the workers and upheld their predominance in the trade union movement. While these confederations still could boast of a membership of several hundred thousands, others could pride themselves on one hundred thousand members at the most – the League, MOSZ and ÉSZT. Some confederations covered several branches of the national economy – MSZOSZ and ASZSZ – while SZEFG united the majority of the workers of the important civil and public services. The membership of others was mostly concentrated in one or two branches or employment groups – the League and ÉSZT – and their organisational structure was adjusted accordingly. (Chapter III.)

²³ Act No XXIX. of 1991.

²⁴ The new trade union groupings – the League and Workers' Councils (MOSZ) – were exempt from this obligation, since they collected their membership fees directly.

Table No 8: Public Servants' Council and Works Council elections in Hungary, 1993 and 1995, percentage of votes

	Public Servants' Councils		Works Councils	
	1993	1995	1993	1995
ASZSZ (Autonomous Trade Unions' Confederation)	0.5	0.1	18.57	20.34
ÉSZT (Confederation of Professionals' Unions)	7.2	9.4	0.66	0.80
The "League" (Democratic League of Independent Trade Unions)	4.9	4.6	5.66	6.40
MSZOSZ (National Association of Hungarian Trade Unions)	9.4	9.2	71.67	66.56
MOSZ (National Association of Workers' Councils)	0.2	0.2	2.21	2.47
SZEF (Trade Unions' Co-operation Forum)	49.1	50.0	0.02	0.07
Other Of which: KESZOSZ (Confederation of Christian Social Trade Unions) Unions not affiliated with confederations Independent candidates	28.7 - 2.1 26.6	26.4 0.1 1.7 24.6	1.22	3.36
Total	100.0	99.9*	100.0	100.0

Source: Ministry of Labour

* Results of Public Servants' Council and Works Council elections are not comparable, because of the different methods of summing up national results.

The picture on the employers' side of the IRC was much less lucidly arranged and clear.

This was due to a certain extent to the permanent and continuous changes in the composition of Hungarian employers – in contrast to the workers – originating from such fundamental processes of economic transformation as the disintegration and privatisation of the majority of state-owned companies and co-operatives or the development of private enterprises, of SMEs etc.

The employers' organisations were not in any way submitted to such tests of legitimacy or representativeness as were successfully managed by the trade unions. As referred to above, the employers' representatives – in contrast with those of the trade unions – were not elected, but delegated even to the Self-Governments of Health and Pension Insurance in 1993.

It was as late as 1997 that the IRC's employers had to face a test of (minimum) representativeness for the first time, when they had to compete for the seats in the Self-Governments of Pension and Health Insurance. This delay saved them from tensions and conflicts for several years, but by 1996-97 it was not making their life easier.

The Interest Reconciliation Council, which was a key institution of economic transformation and of the re-creation of "capitalist order" in the country in the context of globalisation, did not have clear and democratic regulations as to participation in it throughout its whole existence. Nonetheless, it had the necessary legitimacy and public support to perform its tasks – primarily on the part of the labour organisations, representing those masses of workers, whose tolerance was of vital importance for the successful completion of the transformation process.

8. Still on the agenda

In Hungary the criteria and measurement of representativeness, as fixed by legislation, are clear and well-defined for trade unions on the level of business organisations and public service institutions, but are less distinct or missing on the level of the sectors (branches) of the national economy and on national level – except for the public service trade unions.

This state of affairs can be considered as natural or even favourable in the given historical context. The 1990s was the period of political and economic transformation – and that of the organisations of interest representation, of trade unions and employers' associations too. They were in a stage of self-organisation and adaptation to the new changing and expanding world – of fragmentation to be followed by consolidation. Political pressure on them to provide proofs of their representativeness, of support by their constituencies in this difficult and sensitive process, could have endangered even the initial results of their self-organisation.²⁵

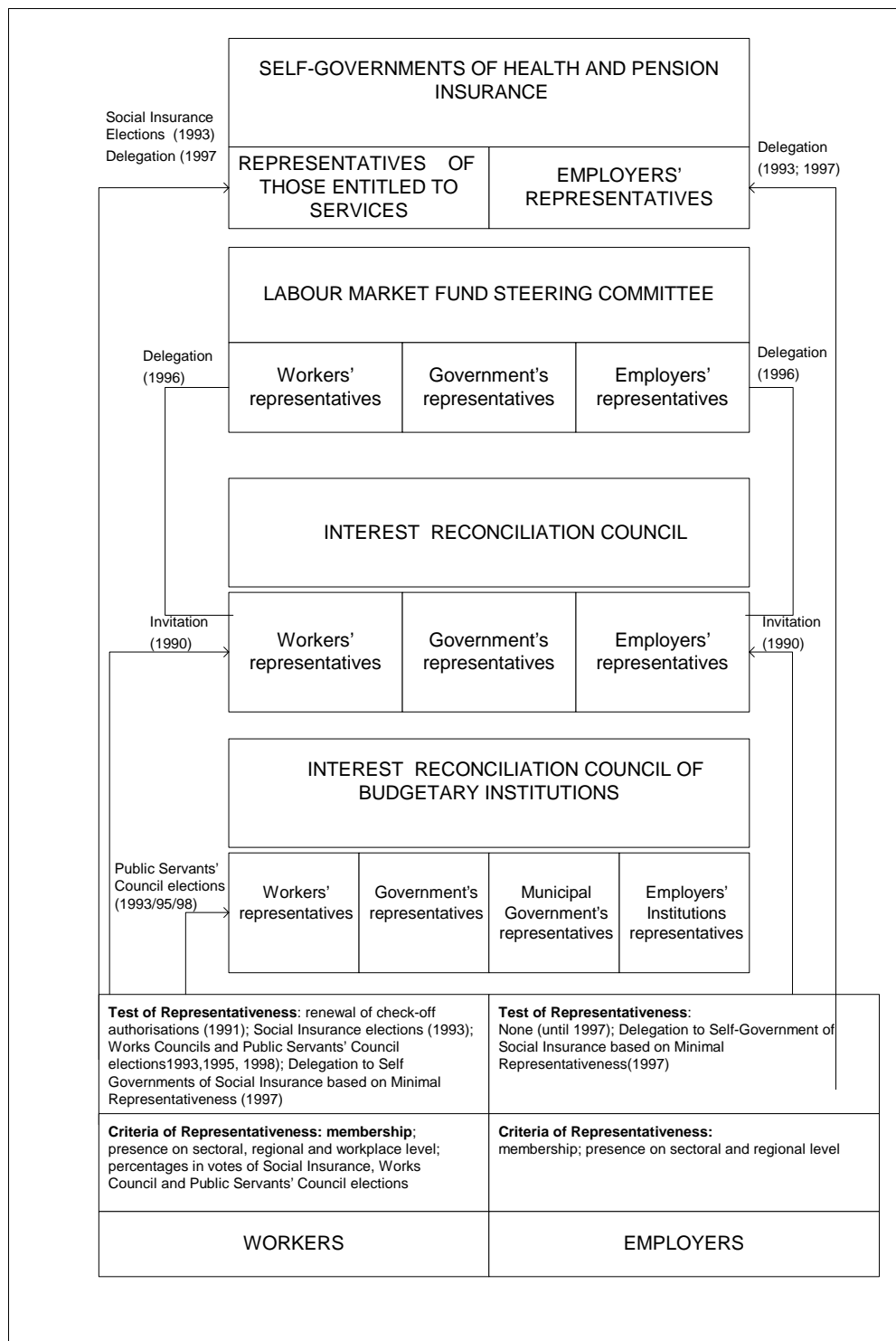
By 1996-97 the situation had dramatically changed. After the organisations of interest representation had been more or less consolidated and a wide system of tripartite institutions had been developed and put into place, it became a joint longer term interest of those concerned – the government, the trade unions and the employers' associations – to adopt clear and democratic regulations for these institutions, based on well-defined and well-founded criteria of representativeness for the involvement of social partners. To proceed with it became a pressing and topical task in order to reinforce the credibility of the institutions, to make the organisations of interest representation face the challenges of competition, to provide equal opportunities for the newcomers, to improve the effectiveness both of the institutions and of their participants – and to meet the basic principles of democratic labour relations.

Progress in this direction was halted at half way in 1997-98. The completion of the task was left for the second Conservative Government and it has been kept – most justifiably – on its agenda.²⁶

²⁵ Nonetheless political pressure by the first Conservative Antall Government (1990-94) had just the opposite – and probably unwanted – impact: it helped build up membership and public support for the old reformed unions. (Chapter III).

²⁶ The Orbán Government's proposals for criteria of representativeness took up once again those in Act No. XII of 1993 on the Election of Representatives to (the Self-Governments) of Social Insurance. In addition for employers' associations they fixed alternative minimum criteria of "1000 employer/entrepreneur members" or "100 thousand employees" – to make it possible for both "small employers" and "big employers" to qualify as representative. Javaslat az Országos Munkaugyi Tanács Ideiglenes Alapszabályára. Előterjesztés az Erdekegyeztető Tanács részére. (Proposal for the Provisional Statutes of the National Labour Council. Prepared

Figure 1: Representativeness in the national institutions based on workers' and employers' representation



for the Interest Reconciliation Council.) Ministry of Economy – Ministry of Social Affairs and Family, Budapest, 15th April 1999. The Provisional Statutes – including the criteria of representativeness – were approved by the National Labour Council (NLC) on 21st April 1999.

Chapter VIII

THE BEGINNING OF A NEW ERA?

The mission of tripartism – or in a wider sense of social dialogue among the government, trade unions, employers and other actors – is the maintenance of social peace and cooperation, the building of consensus, the mobilisation of social support for governmental policies, decision-making, legislation and the improvement of the professional quality of administration.

The final indicators of its success are: to what extent social peace and cooperation are maintained and manifestations of public dissatisfaction (such as general strikes and mass demonstrations) are avoided, especially in critical economic situations, to what extent governmental policies are backed – beyond the government’s obvious majority in parliament – by other political forces and by society in general, to what extent the population – including the vast masses of workers, employers and entrepreneurs – feel laws passed to belong to them, serving their interests, and accept and obey them.¹

As the indicators of success refer to extremely complex phenomena, which are extremely difficult to grasp and characterise, it is as difficult to provide a well-founded evaluation of the performance of national level tripartism – interest reconciliation or social dialogue – as of that of the changing governments and parliaments of the 1990s in Hungary. It is even more so because of the interdependence of the functioning and performance of the tripartite institutions and the given government and legislature.

If an evaluation in a nutshell is asked for, I see the major achievement of Hungary’s tripartism in the fact, that the country could survive the extremely difficult period of political and

¹ Politicians, legislators, often tend to think that by passing adequate legislation their task has been completed. In practice laws very often, voluntarily or involuntarily, are not implemented. Informal (unlawful) employment – which is widespread in Hungary – is an example of the voluntary evasion – by both employers and employees – of labour law. The substitution of the (for the employer) costly employment relationship (based on labour law) with much less costly contract labour (based on civil law) – i.e. the employer’s voluntary “escape from the burden of regulation” – in many cases is not unlawful, but demonstrates a reluctance to follow the Labour Code. In addition, some provisions of the Hungarian Labour Code proved to be too rigid and hard to apply in the 1990s (e.g. regulations related to paid leave) and were not (could not be) applied by the employers, despite their best intentions. Trade unions are aware of the importance of the implementation of labour law, but tend to consider it as an exclusive task of the government, of the job inspection authority, and are unwilling to find their own role in it. Their strategy in the 1990s was aimed at achieving severe – and consequently rigid and inapplicable – regulations in the protection of workers and of themselves.

economic – as well as social – transformation without serious social shock, disturbances or social explosion and maintain an acceptable level of cooperation throughout this process.²

1. Successful and critical periods

The Interest Reconciliation Council – which was the first and most important institution of Hungarian tripartism throughout its existence – was elevated to the focus of public interest in Autumn 1990, when it negotiated a settlement in its one day sitting – directly transmitted by Hungarian Television – for the taxi and lorry drivers' blockade, which was paralysing the whole of the country and arousing the interest – sympathy or antipathy – of the whole population. It was apparent to most people, seated in front of screens and holding their breath, how competent and professional were the unions' and employers' negotiators³ faced with the awkward and amateurish ministers of the first Conservative Government.

The status and prestige then acquired by the IRC in labour relations and politics in Hungary, were strengthened further by the developments of the coming years. In 1991-94 the Finance Ministers of the governments – from Mihály Kupa to László Békesi – considered it of importance to secure the IRC's support, or at least acceptance, for the draft acts on the annual state budget and taxation prepared by them, in the framework of income policy agreements (Chapter V). The IRC's importance was still further emphasised in the first year of the Socialist-Liberal Horn Government, in that the longer term general Social and Economic Agreement in the government's programme was meant to be negotiated within the framework of the Interest Reconciliation Council (Chapter VI).

In the meantime – from 1994 to the present day – several much less extreme fluctuations have taken place in the IRC's role and importance. In February 1995, the IRC negotiations related to the envisaged grand social pact were closed by the Horn Government, as it did not feel there was enough willingness and readiness on the part of its partners to achieve it. After March 1995 the tripartite body's meetings were seriously short of cordiality, but in 1996 normal practices were resumed and a very successful period followed, producing a series of agreements. When the IRC's position seemed to have been consolidated by 1998, the new Conservative Orbán Government – taking office after the 1998 Spring elections – took the unilateral decision to eliminate and substitute it with other institutions, sacrificing even its name which had become a nationally and internationally known “trade mark” by that time.

Public attention seems to be faithful: TV cameras and flashlights appeared in Conference Room No 3 of the Parliament's Office Building⁴ – where the IRC's sittings were held – and they are present in the Conference Room No 547 of the Government Building in Roosevelt Square – where the meetings of the successor National Labour Council take place. Regardless of the change in its name it still is the oldest and most powerful tripartite institution in Central

² It should be noted again that Hungary has been one of the most peaceful countries in Central and Eastern Europe: since the Strike Act of 1989 it has had annually a dozen and a half mostly insignificant industrial actions, except for two or three bigger and longer railway strikes – and the taxi and lorry drivers' blockade in Autumn 1990.

³ The spokespersons of the trade unions were Pál Forgács (the League) and Sándor Nagy (MSZOSZ), while those of the employers were István Orbán (MMSZ) and János Palotás (VOSZ).

⁴ The Parliament's Office Building on the banks of the Danube was the Headquarters of the Hungarian Socialist Workers' Party (MSZMP) – the ruling Communist Party – before the political change, and Conference Room No 3 happened to be the meeting room for the Party's Political Committee (Politburo), i.e. its highest body.

and Eastern Europe. Nonetheless one has the impression that it has lost much of the glory of its past legendary periods. Is this really so and if yes, why?

It is not to be denied that interest reconciliation in Hungary – as in any other Central and Eastern European country – has had successful and less successful – one could also say good and bad – periods and years. It should be noted right away that these have not necessarily been linked to definite governments, but rather to definite political and economic conditions. It would be a cheap gross generalisation, lacking solid foundations, to suggest that social dialogue flourishes in the period of left-wing Socialist governments, while the reign of right-wing Conservative governments brings its interruption or decline. In Hungary the system of tripartite institutions was created and consolidated mostly in the period of the Conservative Antall Government (1990-94), as social partnership in Germany has been supported by both the Conservative Christian Democrats and the Social Democrats.⁵

In the view of the author, Hungary's tripartism in the course of its career until now has had successful periods in the years:

- 1992/93, when the Interest Reconciliation Council achieved probably the most important agreement of its whole history, the 1992 November income policy package agreement (Chapter V). It was this deal which settled the conflicts between the trade unions and the first Conservative Government, opened up the way for the 1993 elections of the Self-Governments of Pension and Health Insurance and of the Works Councils and Public Servant's Councils, covered a large scope of income policy measures and led to the final elimination of governmental wage regulations in the business sector.
- 1996/98, when the Three Year Agreement of Public Servants – to date the only longer term and general agreement in the history of tripartism in the country – was achieved by the Socialist-Liberal Horn Government (in March 1996) to reconcile the workers in public services, and the Interest Reconciliation Council of Budgetary Institutions (IRCB) was promoted to be an important institution of national wage bargaining and agreements for public services for 1996-98 (Chapter IV).

It was in this same period that in the Interest Reconciliation Council a series of agreements were concluded on the Labour Inspection Act, on the establishment of the tripartite Labour Market Fund Steering Committee (LMFSC) and of the Labour Mediation and Arbitration Service and on the reconstruction of the IRC itself (in 1996), on pension reform and on the 1998 acts on the state budget and taxation (in 1997), on the ratification of the Social Charter of Europe (in 1998), while the routine annual wage agreements of the business sector were struck too.

It was also a development of this period that regular meetings took place between the Prime Minister and the top leaders of the national trade union confederations and employers' associations of the IRC to discuss such issues as the utilisation of surplus revenues from privatisation, the promotion and strengthening of collective labour relations, the renewal of the Self-Governments of Pension and Health Insurance and a great number of economic policy issues.

⁵ British Thatcherism can be looked upon as a marginal exception in Europe.

Formal and official meetings between the government and the social partners – primarily the trade unions – were complemented by frequent informal and unofficial contacts which developed into a kind of everyday working relationship, taken care of by the Ministry of Labour.

The system of the tripartite institutions of Hungary – including the IRC, the IRCBI, the LMFSC as well as the related Self-Governments of Pension and Health Insurance – acquired its full dimension and was at the zenith of its political influence in these years of the Socialist-Liberal Government (Chapter II).

It is far from being an unjustified exaggeration to look upon the period of 1996-98 as the “golden years” of interest reconciliation, of national social dialogue in Hungary.

In this period the functioning of the IRC – and other institutions – became well balanced by 1998, it followed the rules commonly agreed and it lacked the bitter political and ideological – as well as often personal and emotional – confrontations of the earlier years. The foundation for such practices was provided by the improving situation of the national economy, by the strong mutual commitment of the Horn Government, of the unions and employers to interest reconciliation, compromise seeking and consensus building. The government’s behaviour and style became calm and well-balanced and it did not lack empathy and tolerance towards the partners on the other sides of the table.

National interest reconciliation – social dialogue – has had less successful, or one could say critical, periods in Hungary too:

- 1991, when the first Conservative Government – after it had contributed to the re-establishment of the Interest Reconciliation Council with a reinforced organisational structure and extended authority in 1990 – launched a politically and ideologically conceived attack against the old reformed trade union confederations, primarily MSZOSZ, by initiating the two infamous trade union laws (Chapter III).

1995, when the Socialist-Liberal Horn Government – although it was strongly committed to interest reconciliation and its commitment was never questioned by the social partners – had to close the negotiations aimed at the Social and Economic Agreement, and to embark upon the unavoidable stabilisation measures – despite protests by the trade unions and the employers of the IRC.

Prime Minister Gyula Horn writes in his memoirs: “I often wondered whether our practices of governing were adequate. To prevent conflicts, and if they could not be evaded, to settle conflicts, I always tried to negotiate with those concerned. I took social dialogue seriously, and once – when I prepared for a (party) Congress – I had my colleagues prepare some statistics on such talks. It turned out that in 1995 I met people from organisations of interest representation, of professions, of political and civil organisations on one hundred and thirty seven occasions. It is a huge number, especially if it is also taken into account that in the same period I was a participant in close to eighty international meetings too. – There were critical remarks in plenty, that this intensive dialogue was but the continuation of old reflexes of the party state, a manifestation of traditional practices of “hands-on control”. I think it was nothing like that. Although it was time-consuming, tiring and nerve-racking to negotiate, to bargain – we had to do so. When the trade union of many tens of thousands of health workers organised demonstrations, I felt it my duty to have

talks with them about their deteriorating situation, the government's intentions, the possibilities of compromise. I was well prepared, I made efforts to be properly informed about this sector, but I was also careful to leave the competent Minister to put forward the government's definite intentions in the talks In the process of interest reconciliation, the most difficult part is to identify the actual situation and the actual demands. When I was invited by the leadership of the Health Workers' Union to their assembly, I joined them to listen to them and to learn the situation, as seen "from the bottom". I got it. I had rarely received such hard face-to-face criticism. Budapest people especially blamed the government, and as I experienced they poured out all of the complaints, which had accumulated in them for years. I interjected only once and otherwise I listened to them in silence. – Of course, it was the role of the Minister to answer, but I did not accept what was said without comment either. It is true, that there are difficulties in the government's work, and it is not only our fault, but it is primarily an outcome of the tragic situation of the country, I said. In our days everyone fails to mention that the measures taken by this government should have been taken by the previous governments.... Probably, it is no consolation for you that the crisis of the health services is present all over the world.... – It is interesting, that I have never experienced militant attitudes from the trade union, when wasting of money and corruption were on the agenda... – I added. I support private practices by doctors, but I cannot accept it when medicaments and medical instruments are taken home to private ambulances from the state hospitals and ambulances... It is no wonder that the functioning of the institutions of our health service is gradually getting impossible – because of poor management. – I have to say that many of them began to nod and even larger numbers protested, while listening to my criticism. Nonetheless, it was a fact that emotions somewhat calmed down – still the strike committee was established. In the end, it was not the health workers but the teachers who went on a one day strike, which was enjoyed by their pupils. – After lots of troubles, discussions, we arrived at an agreement with the Health Workers' Union at the end of December, just before New Year's Eve. The document was signed by me too, as an indication of the government's responsibility for it. We made progress step by step: one negotiation was followed by another, with public servants, civil servants, policemen, railway workers, miners, students. It is too much even to list all of them. They involved huge burdens and nervous tensions, but they were worth doing. Social peace and political stability could be maintained, while no compromise was made at the expense of our economic policy targets, of our efforts to put the economy into order.”⁶

Nonetheless, the Government's critics – including the big trade union confederations – tended to look upon the year 1995 as the “nadir” or the “dark ages” of interest reconciliation for the time prior to 1998.

It is absolutely true that no national agreements were concluded and the participants did not get on in the IRC in 1995, but intensive consultations took place. In Summer the trade union confederation MSZOSZ even raised the idea of possible wage and price agreement, to which the Government – Finance Minister Bokros – reacted positively, although its achievement, in the context of the economic stabilisation and after the liberalisation of consumer prices, was far from being a realistic prospect. For similar reasons 1995 income policy negotiations – about the 1996 state budget and taxation – could not yield results (Chapter V).

⁶ Horn, Gy.: *Azok a kilenvenes évek...* (Those years of the 90s...), Kossuth Kiadó, Budapest, 1999. p. 355-357.

The Government in the end had to accept that the trade unions were not in a position to approve further governmental measures laying new burdens on the shoulders of workers without serious risk of losing face, and the labour organisations in their turn had to accept that the government could not relax the emergency measures, without risking the success of stabilisation. It was acknowledged by them after some time had passed, that macro economic stabilisation was not only necessary and unavoidable, but also had its benefits: it laid the foundation for sustainable economic growth and also for the restart of real earnings growth.⁷

The agreements achieved in general are looked upon as the most presentable and quantifiable indicators of the success of interest reconciliation. In our view, in emergency economic situations, it is an indicator of similar value, if the negotiating partners – even if they cannot come to terms – do not stand up and leave the table, but remain there and try to do their best, instead of taking their membership and the population to the streets.

The absence of agreements may justify questions and may cause concerns in such economically favourable situations as Hungary has lived through since 1997 thanks to the stabilisation efforts of 1995/96. It was specifically the positive turn in the economy which made it possible for the second half of the Socialist-Liberal Government to become a real “success story.”

- 1998/99, the first one and a half years of the second Conservative Government, can be characterised as the most recent critical period for interest reconciliation in Hungary.

The Orbán Government, when it took office, emphasised its commitment to interest reconciliation and promised to “raise it to a higher level”; it carried out a restructuring of the tripartite institutions – including changes which had been considered as much needed also by its predecessor – but all the same the final result of the process was a stillborn new institutional framework, with practically no performance – as we will see – while relations with the social partners, primarily with the unions, cooled to below freezing point.

As a critical state of affairs in social dialogue is always the outcome of the complex interplay of several conditions, in the following I try to provide an overview of them.

The point to start from is the institutional reforms targeted and urged by the Horn Government and – partly – accomplished by its successor.

2. The failure of “self-reform”

After the failure of the Social and Economic Agreement (1995), having drawn the necessary conclusions from it, all of the Interest Reconciliation Council’s participants agreed on the necessity of the reconstruction of the institution, and in general on the reform of interest reconciliation, and to promote this end a tripartite agreement was struck on “the further development of the IRC” – as it was euphemistically called – and its “major principles and directions” on 17th May 1996 (Chapter VII).

The agreement was unambiguous and progressive and it tried to offer and find solutions for all those obvious problems which became apparent in the functioning of the IRC in the

⁷ It is ironical that these facts are still denied by the Conservative Orbán Government, which is politically and economically a major beneficiary of the “Bokros package”.

context of the “expanding world” and which were reported in the earlier parts of this book. It started out from the right principle that the institution's reform had to be based on the consensus of its participants. Nevertheless, it soon became obvious that the parties’ actual targets and interests were diverging and conflicting and neutralised each other.

The Government – and the big trade union confederations – wanted to create clear and democratic internal rules (e.g. as to participation based on representativeness) and to clarify and settle the relationship of interest reconciliation to labour and economic (income) policy issues. The employers, on the contrary, at the beginning identified the expansion of the IRC’s authority with no boundaries as the major target of the reconstruction, while later on – after having proved to be unsuccessful – they stuck to the maintenance of the “status quo” and rejected any profound changes. This deadlock could best be illustrated by the IRC’s failure to set up criteria for representativeness.⁸ (Chapter VII.)

By 1998 it became more than evident that the IRC could not be reformed on the basis of the consensus of its participants, as both expert meetings and informal political talks – mobilising vast energies – failed to yield results. Nonetheless, the government was not in a position – on the eve of the parliamentary elections – to undertake such unilateral initiatives as could have provoked disapproval or open protest on the part of several organisations – or the whole of the other two negotiating groups. Such steps could be taken after the elections, but a pre-election period was (in an ideal world) unsuitable for them.

That is why the Government limited itself to putting down its own “vision” as to the future of interest reconciliation and labour relations – its reform ideas – which nonetheless remained on paper, due to the well-known results of the elections, although certain components were tacitly taken over and put into practice by its successor.

This plan had a threefold structure of national institutions of interest reconciliation in mind: a (new) Economic and Social Council for general consultations on economic and social policy and legislation; the Interest Reconciliation Council (IRC) and the Interest Reconciliation Council for Budgetary Institutions (IRCBI) for negotiations on labour policy and legislation, in the business sector and in the public sector, respectively.

The Social and Economic Council was to include – as well as the representatives of the IRC’s trade unions and employers – those of the chambers of economy, the local governments, the banks and financial institutions, the international (multinational) companies, of scientific bodies (perhaps of civil organisations and independent experts too).

In the Interest Reconciliation Council the plan envisaged providing a decisive role for those national trade union confederations and employers’ associations, which were also partners to each other in the collective bargaining process of the business sector. It stood for the involvement in the IRC of the new powerful groupings of employers, the public utility companies, the bank sector and the multinationals. The social partners’ role and direct contacts were to be given increased importance (primarily in wage negotiations) while that of the government was meant to be gradually downscaled.

⁸ The participants could come to terms only on such issues of minor importance as setting up new committees (on the European Integration/ILO, on the Labour Code) and to fixing time frames for the negotiations on draft labour legislation (60 to 30 days) etc.

The Interest Reconciliation Council for Budgetary Institutions was to be given an increased role and its authority to be expanded to cover the whole of the budgetary sector, beyond just public services. The government's presence in the body was to be reinforced, due to the special responsibility it had as the – direct or indirect – maintainer and employer of the budgetary institutions and of their employees, respectively.

The plan envisaged a widening authority – rights – for both the IRC and IRCBI in decision-taking concerning working conditions – primarily working time arrangements and related wage supplements, regulated by law in the 1990s.

It stood for the introduction of clear democratic internal regulations both in the IRC and the IRCBI, based on requirements of representativeness.

It envisaged legislation on interest reconciliation.⁹

3. The “gutting” of interest reconciliation

The Orbán Government had a differing – and, in the view of many, arrogant and aggressive – approach as to the reform of interest reconciliation and imposed its will on the social partners.

It is true that it corresponds to the pure values and principles of tripartism – and it is more elegant too – to try to seek consensus. Nonetheless one should be aware, that structural changes of institutions touch upon – and often also hurt – the interests of those concerned and cannot be managed on the basis of consensus, to the satisfaction of all. It is an old commonplace truth in sociology: if an organisation is given the task of reforming itself, the most probable result to be expected after massive efforts will be the preservation of the original conditions. In such situations unilateral governmental measures may be necessary, or even inevitable.

It was under serious consideration by the Horn Government too – if it remained in office after the 1998 elections – to carry out the reconstruction of tripartite institutions by a unilateral governmental initiative via legislation, after due consultations with the social partners. That is why I think that the Orbán Government cannot be blamed either, that it acted at the best possible moment – right away after the elections – imposing its will on the trade union confederations and employers' associations. The Government's (or parliament's) authority to set up institutions for social dialogue cannot be disputed in any constitutional democracy.

What can be much debated is the professional quality of the measures carried out by the Conservative Government, the political motivations and governmental philosophy behind them and their consequences for the process of interest reconciliation in Hungary.

If unimportant details are neglected,¹⁰ the Government's measures aimed at the reconstruction of the tripartite institutions and their functioning in Spring 1999, were as follows:

⁹ A munka világa. (The World of Work). Prepared by the Expert Group headed by L. Héthy. Szakmai Füzetek '98. Magyar Szocialista Párt, Budapest, 1998.

¹⁰ We consider the establishment e.g. of the European Integration Council (Európai Integrációs Tanács) and the National ILO Council (Nemzeti ILO Tanács), as separate nation level tripartite institutions, to replace the earlier IRC committee. As for the changes in institutions and their governmental justification, see interviews with Csaba Öry, Political State Secretary, Ministry of Social Affairs and Family. (e.g. Magyar Nemzet, 4th March 1999, Népszava, 30th September 1999.)

- 1) The Interest Reconciliation Council (IRC) was dissolved and replaced by two new institutions, the National Labour Council (NLC) and the Economic Council (EC),¹¹ taking over (most of) the IRC's functions.
- 2) The National Labour Council is heir to all of the functions of the IRC in the field of interest reconciliation in labour issues and policies (including the setting of the national statutory minimum wage, adopting and issuing recommendations for gross earnings growth in the business sector, pre-legislative consultations on labour law etc.)

The NLC's limitation to interest reconciliation in labour issues, however, prevents it from full substitution for the IRC: as it does not cover economic (income) policy issues it is not in a position to be engaged in income policy consultations and to achieve income policy agreements, as was done by its predecessor.¹²

In our view, the separation of wage negotiation and income policy consultations is not a step forward, but rather it is a step backward in interest reconciliation in labour issues: it may lead to an impossible situation in the wage negotiations for the business sector too.

- It was a major weakness of national wage negotiations already for the business sector in the IRC, that they lacked the institutional linkage to economic (income) policy consultations; this was to some extent compensated for by the condition that the IRC had such consultations (sometimes even directly related to the wage negotiations) and achieved occasional income policy agreements (Chapters IV and V). This weakness in the new NLC is compensated for by nothing.

As was earlier argued, while the topic of national wage negotiations is the growth of gross nominal earnings, all of the participants have in mind real earnings and income (of the workers, of the entrepreneurs, of the state budget). That is why these negotiations – and the agreements achieved – tend to float over actual realities and tend to bring about unexpected and unintended actual results for the participants, if other conditions which have an impact on real earnings and real income (such as personal income taxation, taxes imposed on undertakings, duties imposed on earnings, the growth of consumer prices etc.) are not involved.¹³

Separate wage negotiations on nominal gross earnings could effectively function only if Hungary had a stable system of taxes and duties imposed on earnings and a low rate of inflation. For the moment none of these conditions are provided.

- It seems to be desirable and necessary to link the NLC's national wage negotiations and agreements to economic performance, as it is after all the growth of GDP and productivity which open up the economic space for real earnings growth, involving no inflationary pressures.

¹¹ In Hungarian: Országos Munkaügyi Tanács and Gazdasági Tanács.

¹² Income policy consultations take place – at the request of the social partners – directly with the Ministry of Finance, outside of the framework of NLC.

¹³ It had been argued already in 1988, when the forerunner of the Interest Reconciliation Council was established in Hungary, that wage, income and social policy issues, because of their close interrelationship, cannot be dealt with separately. (Interview with Deputy Prime Minister, Péter Medgyessy, referred to in Chapter I.)

- Such a linkage should have been established already in the Interest Reconciliation Council. In its annual wage negotiations in the 1990s frequent references were made to economic performance, to support proposals for both higher and lower rates of growth, but no serious intention existed nor attempt was made to establish an institutional relationship between the two.

The Orbán Government made the – in its view very reasonable – initiative in Spring 1999 to establish a negotiated relationship between GDP and real earnings growth. This is worth further consideration, discussions and the elaboration of its technical details.

It should be noted that if the topic of the tripartite talks is real earnings, they are not wage negotiations any more, but income policy negotiations.

- The NLC's – earlier the IRC's – participants have been interested for many years in such a transformation of the system of taxes and duties on earnings, as would provide more favourable conditions for the functioning of enterprises by reducing the costs of employment and, in turn, would improve the chances of employment and reinforce the positions of the workers and unions too.

Although the Horn Government had such reforms on its agenda, they were not carried out. Similar measures were envisaged by the present government too, in the course of the election campaign in 1998.

The working out of such reforms is a task in which – in our view – it would be desirable and necessary to involve the representatives of those primarily concerned: the trade unions and the employers' associations. For the related consultations (negotiations) an ideal institutional framework would be provided by the National Labour Council, if it had the authority to discuss income policy issues.

That is why it is a pity that the NLC's functions were defined in an obviously narrow-minded and short-sighted way.¹⁴

In other respects, the NLC – as to its participants, structure and internal regulations – shows no changes compared with the IRC: it means that very few of those problems in its functioning have been remedied, which accumulated in the course of the 1990s, and impeded its effective functioning, as amply described in the previous chapters.¹⁵

- 3) An Economic Council (EC) was established for economic policy consultations. It has a wider circle of participants than the IRC had and it is not a tripartite institution.

This initiative was well justified as in the 1990s important new actors appeared in the national economy, in front of the “gates” of the Interest Reconciliation Council, who – like the trade unions and employers of the IRC – should have been provided with the possibility of economic policy consultations, such as the chambers of economy, the multinational companies, the financial sector (banks and insurance companies), the organisations of investors etc. (Chapter III).

¹⁴ For a more detailed analysis see: Héthy, L.: Országos jövedelempolitikai megállapodások. A múlt és a lehetséges jövő. (National income policy agreements. The past and the possible future.), Közgazdasági Szemle, Budapest, No 1/2000.

¹⁵ A notable exception is the adoption of rules on representativeness as suggested by the Government..

The Horn Government, as was earlier described, started negotiations – outside of the IRC – with the chambers of economy, with the multinational companies and with the Bank Association and in 1997 also put down a proposal to set up a Social and Economic Council, similar – in its functions and participants – to the new EC.

In 1999 the Economic Council was convened and held sittings several times – with the participation of the Prime Minister – in which the economic ministers provided information on developments in the national economy, and on governmental economic policies.

These meeting have been nicknamed “audiences” – with or without good reason, but at least with some irony – by the trade unions and employers. One of the leading figures of the employers commented:

“In those years, when the reshaping of the Interest Reconciliation Council made extremely slow progress, several fundamental problems were raised, for which the new structures of interest reconciliation provide now a certain solution. In the new structures of interest reconciliation the two types of interest reconciliation [on labour and economic policies] were separated and are realised today, on one hand via the National Labour Council, and on the other, via the Economic Council. Today it cannot be seen clearly as yet whether the Economic Council provides an adequate framework for interest reconciliation on macro economic issues. On the part of the interest representation organisations the target is not to have co-decision rights, but to participate in the preparation of decisions. For this the Economic Council is not an adequate institution, as it provides opportunities for ceremonial speeches, but has no background structure and no intention seems to exist to build it up. This country is in need of a target-oriented operation. Legislation could be assisted very much by the organisations of interest representation making visible such interests as cannot be otherwise directly seen, either by the legislators or the executive power.”¹⁶

- 4) The Interest Reconciliation Council of Budgetary Institutions (IRCBI) – after one and half year of neglect – was dissolved by the Orbán Government in October 1999, putting an end to the national wage negotiations for public services, which developed in 1996-98.

This measure was difficult to understand and interpret even for governmental experts, as it was earlier indicated by the government that it would withdraw from the wage negotiations for the business sector, leaving the field for the unions and employers, but it had the intention of keeping a presence where it was the employer, notably in the budgetary sector. As a follow-up it eliminated the IRCBI and assumed a much more aggressive role in the wage negotiations of the business sector than any of its predecessors.¹⁷

¹⁶ István Orbán, the President of MMSZ-MGYOSZ (Hungarian Employers’ Association – National Association of Hungarian Manufacturers). Interview. Világgazdaság. Budapest. 28th September 1999.

¹⁷ It should be noted that in parallel with the elimination of the IRCBI, István Stumpf, the Minister of the Prime Minister’s Office, initiated separate closed negotiations on public service salaries with the biggest public service confederation, SZEF (Trade Unions’ Cooperation Forum), which had been the predominant force in the IRCBI’s workers’ negotiating group. In the National Labour Council, the agreement on the 2000 national statutory minimum wage was achieved after difficult negotiations and no recommendations were adopted for gross earnings growth, because of the government’s behaviour.

Setting salary growth for the budgetary sector – including public services – was left for the government and legislation, and – where it was permitted by law – for local wage negotiations. This development was far from being favourable for those concerned:

firstly, the legislation – and the government – despite the promises of the election campaign, proved to be extremely tight-fisted as to public service salaries: in 1999 e.g. the public service salary scale was not increased by parliament;

secondly, local trade unions were not in a position to fight for salary increases, taking into account the tight financing of budgetary institutions.

(A hospital's trade union secretary – a nurse or a doctor – would not exercise pressure on the director/chief medical officer to raise salaries instead of purchasing medicaments or paying the electricity bill.)

At the same time the predominance of local wage bargaining and wage agreements in public services may also involve the danger of growing unjustified salary differentials among professional groups, institutions or branches, while the major pressing general problems continue to exist: the “gap” between public service salaries and business sector wages keeps increasing, while salaries in Hungarian budgetary institutions lag behind European ones to an even more painful extent than wages paid by Hungarian business organisations. In addition this lagging behind can only be partly explained and justified by the relative performance of Hungary's national economy.¹⁸

On the part of the Orbán Government the elimination of the IRCBI and its attitude towards salaries in budgetary institutions – i.e. the sweeping of the grave problem of wage distortions under the carpet – is a negative signal for the workers and the unions in the budgetary sector.

The following two changes, carried out silently by the present administration, cannot be looked upon as “institutional” in the strict sense of the word, as they have not touched upon institutions based on legislation or on formal agreements by the parties, but still they have had a negative impact on social dialogue, on the government's relationship with the trade unions and employers:

- 5) The Conservative Government discontinued the high-level regular political meetings between the Prime Minister and the top leaders of the national trade union confederations and employers' associations.
- 6) It put an end to the practice of frequent informal consultations between the government and the social partners, primarily trade union confederations. (Chapter II.)

On the basis of these developments the analyst can risk the statement: the period 1998-99 has been – despite the institutional changes advertised as positive and justified – the years of the “gutting” of national interest reconciliation in Hungary.

¹⁸ When calculated on the currency exchange rate Hungarian average earnings amount to 10% of the European average, while Hungary's GDP/capita amounts to 20% of the European average; if calculated on purchasing power parity the same percentages are about 30% and 50%. Internationally the (mostly highly qualified) employees in education have higher average salaries than the national average earnings, but in Hungary these – together with the salaries in health services – are rather far below the national average earnings. Source of data: Ministry of Economy, Hungary.

4. Attempt to weaken the social partners

In the philosophy of the Conservative Government the trade unions and employers are entitled to be present in the process of national interest reconciliation – which the Government prefers to call social dialogue borrowing the European terminology – that is to be informed and consulted, but governmental decision-making and preparation of legislation cannot be the subject of tripartite agreements, as these are within the exclusive authority of the executive power. Such deals are unwanted, as they limit the government – and the parliament – in their sovereign freedom of action to formulate and impose political will.

It has been made abundantly clear that for the unions and employers there is no place in national politics. For the unions' role the desirable centre of gravity is the work place, the representation of workers' interests, which is to be reinforced and has to be made more effective. (The latter part of this statement is strongly supported by the author too.)

“At the start of the government, when very grave decisions had to be taken, it could not be expected to consult everyone, to ask for permission, to have decisions approved in wide social debates. These decisions themselves had the function of opening up space for our actions. They had the exact target of destroying those nets, links, which had been woven around the system, around the institutions. Most probably the whole system will be transformed, inducing very grave tensions, as for certain people there existed points of orientation in the ministries, in publicity, and they learned how these worked. This system is being eliminated by the new government, as it has a different political philosophy. It wants to build up a new system of institutions for social dialogue, instead of providing certain lobby groups with access to the corridors, so that they could tell us what decisions to take. No, governmental priorities have to be set by us. Certainly there are decisions, which would be different, if we had more time to take them, but as to their direction, I think we are following the right way... “[As for changes in the interest reconciliation structures] ...the first version is ready, it is called the system of institutions for social dialogue by us, it follows European trends. As for the Interest Reconciliation Council, something has got very much confused: it makes comments on direct political issues, the trade unions fail to fulfil their original tasks, they crave for grand political issues, for grand political agreements, for grand political symbols, while the representation of workers' interests in the work place is neglected by them...” “...The trade union has to engage in debates with the employers, with the government assuming only the role of moderator. The government is to appear as an independent actor, where it is the employer. Otherwise, an Economic Council is to be established, which is not to narrow down, but to widen the circle of participants and carry out consultations on economic and social issues, according to a pre-set agenda. It will not conclude agreements, but rather will discuss the major elements of important economic issues.”¹⁹

As to this admirably straight-forward and open political declaration – based on clear principles for governing – two well-founded questions emerge:

Firstly, if the Conservative Government thinks that for the organisations of labour and capital there is no room in national politics, then why does it still maintain – albeit with reduced functions and influence – the national institutions of interest reconciliation?

¹⁹ István Stumpf, Minister of the Prime Minister's Office, Interview, Esély a konszolidációra. (The chances of consolidation), Népszava, Budapest. 19th December 1999.

In other words, what the National Labour Council or the Economic Council have on their agenda, is national politics – however you look at it– and those who participate in their discussions are consequently actors in national politics, even if of limited influence.

Secondly, how does the governing philosophy of the Conservative Hungarian Government fit into today's European realities?

It is widely known that in most countries of Europe trade unions and employers' associations outgrew their traditional narrow functions as organisations of interest representation decades ago. No modern trade union organisation considers the struggle for higher wages and better working conditions for the workers its exclusive function and limits itself to the work place as its battlefield.

Both unions and employers' organisations became actors in national politics too, as in our time the representation of the interests of their constituency could be effectively accomplished in this way. They have strong positions there in most European countries and they are present in the decision-making and legislative machinery of the European Union too.

That is why I think that the answer to the first of the above questions can be found in the second question and in the answer to that. Hungary's accession to the European Union is on today's agenda and it does not permit any government to destroy – without risking grave international consequences – the institutions of social dialogue in Hungary, regardless to what extent they fit into its philosophy as to the exercise of power or the functioning of democracy.

Nevertheless, no outside (or internal) obstacles have prevented or hindered the Conservative Government from taking a series of measures in pursuit of its philosophy and political interests, which had the tacit or open target of weakening the actual positions of its social partners, primarily those of the trade unions, which were suspected of being too close to the Hungarian Socialist Party (MSZP), and of pushing them out of the national political arena. In the view of the author, without trying to provide a full list, these measures have been as below:

- 1) The structure of central state administration was reshaped in Summer 1998: the Ministry of Labour (1990-98) was eliminated, its tasks were distributed among the new – successor – Ministry of Social Affairs and Family, the similarly new Ministry of Economy and the Ministry of Education.

Looked upon from the viewpoint of the social partners, this kind of restructuring involved the danger – which subsequently has come true – that in the absence of one responsible governmental agency, issues of labour and employment policy as well as of social dialogue would be thrust into the background or to the end of the government's agenda and difficulties would also occur in the contacts between the government and the trade unions and employers.

As in any such case, pros and cons can be listed as to the new structure of central state administration. Nonetheless, it should be noted that almost all of the European countries have ministries of labour and social affairs or ministries of labour.

- 2) The Self-Governments of Pension and Health Insurance were dissolved and the social insurance funds put under direct governmental control, by one of the very first measures of the Conservative government and its parliament.

It is beyond doubt that the scandals of the previous years – primarily around the Self-Government of Health Insurance – did supply the Government with abundant arguments to justify this measure in public. Nonetheless at least two questions have remained unanswered: Did the poor management of these bodies provide proper justification for the general questioning and rejection of the model of insurance self-governance which has been successfully functioning in a number of democratic free market economy countries?

And is the “nationalisation” of the social insurance funds – of which Hungary had long historical experience in the past decades – a guarantee in itself of better management of these assets?

This measure, as was earlier argued, caused serious losses for the employers’ associations and trade union confederations constituting the self-governing bodies – primarily for the National Association of Hungarian Trade Unions, MSZOSZ. (Chapter III.)

- 3) The amendments of the Labour Code and the Employment Act – which were passed despite protests by the IRC and later by the NLC – have resulted, wittingly or unwittingly, in the weakening of the trade unions’ positions, of the protection of workers and of the unemployed, or at least disturbed them.

It irritated the trade unions that Works Councils – the enterprise level institutions of workers’ participation – were given the right to engage in collective bargaining and to conclude collective agreements “in the absence of trade unions”.

Works Councils – by their mission and governing principles – are inadequate for such a task. As they are established for cooperation with the employer, they are not permitted to organise and take part in industrial action, yet collective bargaining and strikes – and the related rights as guaranteed by international labour standards – are inseparable. In practice, where there exists no trade union organisation, in most cases there is no Works Council either, as holding Works Council elections is a primary interest of trade unions, to be able to prove their representativeness, and the employer’s failure to organise them is not penalised. (Chapter VII.)

It must be added that, disregarding one or two very special cases, there is no example in Europe of Works Councils assuming trade union functions, and if attempts were made to this end – as in Central and Eastern Europe in the early 1990s – they were strongly opposed by the trade unions (Chapter I).

The 1999 amendment of the Employment Act reduced the period of entitlement to unemployment benefits to 9 months and eliminated income support for the unemployed.

Social assistance for the unemployed – including unemployment benefits – radically deteriorated in the period 1993-96 in a most unfortunate way, due to the economic constraints and stabilisation efforts. A slight improvement began in 1997 – which was stopped and reversed, this time without any technical or financial justification (see Chapter V).

- 4) An act was adopted aimed at the revision of the status of the chambers of economy and the elimination of their mandatory membership.

This initiative endangered the existence and functioning of the chambers of economy – the organisations of undertakings (employers) established in 1995 to perform certain public duties, which seemed to have built up their organisational structures and to have mostly consolidated their positions vis-à-vis state administration by 1998.

Having finished the above list, the author – and most probably the reader – cannot resist a feeling of *déjà vu*: similar developments took place in 1991 in Hungary in the confused second year of the first Conservative government and in a number of the Central and Eastern European countries, in the first chaotic period of political and economic transformation (see Chapter I).

These developments seem to be out of date and out of place, as in the present critical period of Hungary's accession to the European Union and in the context of the challenges of globalisation, close and smooth cooperation among the workers' and employers' organisations and the government is of growing importance, both in the internal and international political arenas, to reinforce the protection of the workers, of the population, of the national economy. Nonetheless it is the international context which provides grounds for certain moderate optimism too.

5. On the way to Europe

To be engaged in an institutionalised dialogue, to talk to each other – to make a machinery of interest reconciliation institutions work – was a free choice of the governments, trade unions and employers in the period 1988-96. Today it is no longer so.

Hungary's accession to the European Union is to involve the participation of the Hungarian social partners in European social dialogue; the preparation of the country for membership includes that of the trade unions, employers and other organisations of interest representation, and the latter have their part already in the process of accession.²⁰ The institutions of social dialogue in the country – and their participants – are faced with new challenges.

The Interest Reconciliation Council was faced for the first time in its existence with the fact, when the Labour Code was to be amended in Spring 1997, that the shaping of Hungarian labour law is not an issue of "free bargaining" of the three partners of tripartism any more, at least within the loose framework of the international labour standards, but has to be adapted – because of Hungary's obligations of legal harmonisation – to a set of European directives (e.g. to those providing protection for the workers in case of the employer's insolvency, of changes of employer, in case of mass lay-offs etc.). And the Labour Code amendment package of 1997 was only the first step, as several other social directives and labour safety standards have to be taken up and labour law has to be continually adapted to the changes of European regulations.

Hungary's accession is to have also a more profound and wider – albeit indirect – impact on the workers' working and living conditions. It opens up the possibility for Hungarian workers to appear in the European labour market, sooner or later, on the basis of the freedom of the movement of persons, which in its turn may be expected to have a positive impact on the level of earnings in the country. Although no obligation is imposed on Hungary to adapt its wage

²⁰ Reference is made to the Joint Parity Consultative Committee, set up in 1997 from among delegates of the IRC and the Economic and Social Council of the European Union, to make its comments on any economic and social issues of Hungary's accession. (Chapter III.)

level to the European average, its accession will most probably add to the internal and external political and social pressure to increase the level of earnings as this is made possible by economic performance and growth, without involving dangers for the balances of the national economy. The effort by the European Union to increase the rate of employment – to reduce unemployment – in the member countries cannot be ignored either.

It is obviously a favourable outside positive condition for further labour relations developments in our country, that the European Union is committed to social dialogue, to collective bargaining and agreements, and that it is trade union- and employer-friendly.

Tripartite national reconciliation of interest – or, in a wider sense, social dialogue – has had in Hungary – and in the rest of the Central and Eastern European region – more and less successful – one could say critical – periods in its relatively short history. Nonetheless, there is no reason as yet to refer to “rise and fall” of tripartism, as has been done in labour relations literature concerning the Czech Republic and Poland, and may yet be done in our time as to Hungary, on the basis of the developments in 1998-99. The history of national interest reconciliation has not arrived at an end as yet, but is to be continued...

Chapter IX

THE FRAGILE TRIPARTISM OF THE NEW DEMOCRACIES ¹

Since the early 1990s a mushroom growth of tripartite institutions has taken place in Central and Eastern Europe, due to the less developed countries' efforts to follow the example of and to try to catch up with the more developed ones, to efforts by the International Labour Organization and – more recently – to the expectations of the European Union.² Consequently one is faced with very similar institutions pursuing similar practices in very different historical, political, social and economic contexts, and with very different actual impacts on those processes related to transformation, the shaping of which would be their mission.

Some countries – e.g. Hungary, Poland, Czech Republic and Slovakia – have had functioning tripartite structures for many years, which considerably influenced their transformation in certain periods. In others they have been recently established – e.g. in Romania (1997) or Estonia (1998) – while in still others they exist only on paper as yet, as in Bosnia and Herzegovina or Kosovo.³ The easiest – and in our view the least important – part of the exercise is to set up institutions and to frame legislation and rules of procedure.

1. Institutions and procedures

Nonetheless, the reader is to be provided at least with a minimum description of institutional arrangements and procedures, so that this obligatory exercise of a comparative chapter may be accomplished.

In Central and Eastern Europe the central tripartite bodies have differing names: National Labour Council (in Albania), National Council for Tripartite Partnership (in Bulgaria), Council of Economic and Social Agreement followed by Council for Dialogue of Social Partners (in Czech Republic), Economic and Social Council (in Croatia), National Economic

¹ The author prepared several comparative papers on tripartism in the region in its early years. See e.g.: Héthy, L.: Tripartism in Eastern Europe. In Hyman, R. and Ferner A. (Eds.): *New Frontiers in European Industrial Relations*. London, Blackwell Business, 1994. Héthy, L. and Kyloh, R: *A Comparative Analysis of Tripartite Consultations and Negotiations in Central and Eastern Europe*. In: *Tripartism on Trial* (Ed: R. Kyloh) ILO/CEET, Geneva, 1995. p. 1-40. Héthy, L.; *Tripartism in Mittel und Osteuropa*. In: *Wirtschaft, Gesellschaft und Gewerkschaften in Mittel- und Osteuropa*. (Eds: Wolfgang Lecher, Uwe Optenhögel) Bund-Verlag. Köln, 1995. p 266-278.

² The most recent volume from the ILO reports on tripartite practices in 16 countries: Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Macedonia, Moldova, Poland, Romania, Slovakia, Slovenia and Ukraine. Casale, Giuseppe (Ed.): *Social Dialogue in Central and Eastern Europe*. International Labour Office, CEET, Budapest, 1999.

³ In Kosovo a Tripartite Advisory Commission for Labour and Employment was set up by the UN Administration in December 1999, but real dialogue has been limited to some policy discussions with the trade unions.

and Social Council (in Estonia), Interest Reconciliation Council and afterwards National Labour Council (in Hungary), Tripartite Commission for Social and Economic Affairs (in Poland), Economic and Social Council (in Romania), Council of Social and Economic Agreement followed recently by Council of Economic and Social Partnership (in the Slovak Republic), Social and Economic Council (in Slovenia) etc.

Most of these bodies have specialised subcommittees, secretariats etc.

In several countries the central institutions are complemented by other ones (e.g. those dealing with ILO affairs) and trade unions and employers participate also in the bodies running the social security systems and funds (e.g. in Albania, Poland, Slovakia, Hungary before 1998).

In general tripartite institutions are much more regulated as to their composition and procedures in the rest of the region, than in Hungary.

Normally they have a fixed number of participants (as determined by law or their statutes). The Czech and the Slovak Republics' past Councils of Economic and Social Agreement had 21 members (seven from each negotiating group). In Poland's Tripartite Commission – as a result of organic historical development – the government, NSZZ Solidarity and OPZZ (Polish Trade Union Alliance) have five seats each and industry unions have seven more seats. In Albania the National Labour Council has 25 members (of whom 10 represent the unions, 10 the employers and 5 the government) and also 25 “candidate” members. In Romania – according to the relevant Act of 1997 – the Economic and Social Council has 27 members, each party having 9 representatives, appointed for a four year period.⁴

Some bodies have rotating presidency, others permanent presidents etc.

One often has the impression that the more regulated a tripartite body is, the less likely is it to actually work.

Tripartite structures provide a framework for general economic, social and labour policy and pre-legislative consultations. Some of them have purely consultative functions, while others' mission is to achieve agreements. In some countries even the form of agreement was pre-set (e.g. the annual General Agreement in the previous Councils of Social and Economic Agreement in the Czech and Slovak Republics, Social Agreements in the Social and Economic Council of Slovenia.) Among the major issues of tripartite consultations and negotiations have been the liberalisation of wage policies, and the level of wages and other income. The statutory minimum wage is set by tripartite decisions in several countries (Chapter I).

The legal foundation for tripartite structures is provided for by labour law or special laws (e.g. in Albania, in Bulgaria, in Romania, in Slovakia).

In Poland social dialogue “has been upgraded to the level of a structural constitutional principle.” The Constitution of 1997 considers dialogue and the cooperation of social partners as pillars of the social market economy.⁵

⁴ Romanian legislation allows participation only for “individuals who are Romanian citizens, are at least 30 years of age and have the full ability to exercise their rights and duties.” Mihes, C., Casale, G.: *Industrial Relations in Romania*. In: Casale, G. (Ed.) *ibid.* p 279.

⁵ Sobotka, E.: *The Role and Functioning of Tripartite Institutions in Social Dialogue at the National Level in Poland*. In: Casale, G. (Ed.) *ibid.* p 264.

In Hungary, when framing a new constitution was on the agenda in the period of the Socialist-Liberal Government (1994-98), the inclusion of a similar article was proposed. Although this administration had the necessary parliamentary support to pass an act on a new constitution, the political parties – even within the governing coalition – could not agree on some basic principles, including that of social dialogue or national level reconciliation of interests.⁶

The International Labour Organization's conventions and policies have had a strong influence on the development of tripartite structures in the region.⁷

Nevertheless, most comparative volumes on tripartite practices published by the ILO are misleading in the sense that they mostly limit themselves to the formal description of the actors and the legal and institutional framework and refrain from deeper analysis of the actual practices, their contents and impact in the given political and economic context. The ILO is “labour standard oriented”, perhaps too anxious to identify the reflection of its principles in the labour relations systems of its member countries to nourish the growth of weak shoots, and too reluctant to hurt the feelings of any constituents.

While one agrees that even initial results are important on the way to effective national social dialogue, one should be aware that most of the present structures are weak and fragile, even in those countries where they have many years of past history and can boast of results. One cannot forget that in our days two of the most developed and promising tripartite machineries of the region, in Hungary and in Poland, are – at least transitorily – paralysed. Tripartite exercises in general have to be appreciated for their real value and not for their face value.

Tripartite practices have been and still appear to be “premature births” – fragile and vulnerable – all over Central and Eastern Europe in the sense that most of the essential conditions are – at least partly – missing, which would provide for their effective functioning. These are:

- 1) solid governments with an economic manoeuvring space in which alternatives may open up for action to be negotiated and agreed upon;
- 2) strong and united workers’ and employers organisations, in a position to mobilise considerable membership support and to exercise pressure on each other and on the government in order to achieve agreements and to make their membership accept and follow these agreements;
- 3) definite mutual commitments of the three parties to the tripartite exercises originating from the similarity of their philosophy as to governance, labour relations and the guidance of the economy;
- 4) adequate institutions.

⁶ The proposal was made by the Ministry of Labour and fully supported by both unions and employers.

⁷ The ILO’s relevant labour standard is Convention No. 144 on tripartite consultations. On the role of ILO standards in this field, see: Héthy, L.: International Labour Standards in Central and Eastern Europe. In: International Labour Standards and Economic Interdependence. (Eds: W. Sengenberger and D. Campbell) ILS-ILO, Geneva, 1994, p 273-283.

2. The predominance of governments

The main form of social dialogue in Central and Eastern Europe is tripartite consultation and negotiation at national level.⁸

While there exist sporadic tripartite exercises on sector, branch or regional levels in many countries, the whole process is very much centralised, having its centre of gravity at national level. This is so not only because of the decades – or rather centuries – long traditions of central control and direction in the region, but because of the transformation process, which has been accomplished with the governments keeping a tight hand on social and economic reforms. Thus the normal locus of tripartite consultations or negotiations related to public policy formulation has been and mostly still is at the level of national government, where decisions are taken and legislation initiated and from where implementation is controlled.

The government's – the state's – role has kept changing as privatisation and transformation have gained impetus. In most countries the government – also an employer – has remained predominant in the economy till the present day, while in other countries it has lost its decisive influence and its direct role is limited mostly to the shrinking public sector. Its adaptation to the new situation is an ongoing process, not lacking in confusion.⁹ There are also rare cases and periods when the current administration seems to assume a modern role, fitting into the emerging pluralistic democracy and market economy.

Hungary and Poland, when ruled by left-wing governments, provide examples.

Sobotka writes about Poland: "In the framework of establishing a new system within Polish conditions, particular attention should be paid to the changing role of the state. The state has gone from the position of omnipotent decision maker to the role of a guarantor, arbitrator, partner, organiser and promoter. The role of the state as an employer has been reserved for civil servants. However, this transformation has not been accomplished with a single act, but rather as a long-term process depending on the pace of privatisation and effectiveness of structural reforms already carried out. Tripartite dialogue played an essential role in this process."¹⁰

In contrast in most countries the state – government – still retains most of its past role.

In Croatia e.g., "...the state cannot assume a completely neutral role as a social partner in moderating the relationship between employers and trade unions, because the state itself is a dominant employer. The autonomy of employers' organisations in the current state of incomplete economic transition remains questionable, and it is possible they will be more likely to vote in line with the government, and against the employees' side."¹¹

Governments are predominant, but have been acting mostly while cornered by grave economic problems and constraints. Their economic room for manoeuvre has been too

⁸ Casale, G. (Ed.) *ibid.* p. 3.

⁹ It is grotesque when some governments even in the privatised economy – calling themselves Conservative, Liberal or Social Democrat – resort to sharp anti-Communist rhetoric, while tending to behave as if they still were omnipotent, delegated by the ever ruling Communist party. Foreign investors in Central and Eastern Europe have wide – unpublicised – experience in this respect.

¹⁰ Sobotka, *ibid.* 264-265 p.

¹¹ D. Lisicar: Tripartism and Industrial Relations in Croatia. In: Casale, G. (Ed.) *ibid.* p. 104.

extremely narrow, because of the repeated crisis situations, to give them scope for offering real political alternatives to the social partners – unions and employers – and for “purchasing” their cooperation by economic concessions.

They have been acting under severe financial and economic constraints, originating not only from the transitory GDP drops related to economic adjustment, but also from their tasks to reduce international debts accumulated in the past, to cut overspending by the state on ineffective and money-losing public services and social insurance (among other things health and pension insurance) systems, and to keep inflation under control. In such conditions the reduction of real earnings, of real consumption and living standards has been their unpleasant and unpopular duty throughout the 1990s – developments which were detested by the workers’ organisations, whether Hungarian – in the period of macro economic stabilisation in 1995/96 – or Polish – just recently.

“At the end of April 1999 the OPZZ (All Poland Trade Union Alliance) suspended its participation in the Tripartite Commission for Social and Economic Affairs. This trade union confederation criticised the current Polish Government for allegedly not having a positive and genuine attitude vis-à-vis the workers. In OPZZ’s view, the current government’s economic policy has led to a deterioration of working and living conditions in general. Unemployment remains high, health service reform has increased the costs of medical treatment, and access to education is becoming more and more difficult for children and youth from poor families. The OPZZ’s suspension of its participation in the work of the Tripartite Commission has put the entire framework of tripartite cooperation in Poland under strain.”¹²

Until the end of the 1990s most tripartite agreements dealt with the distribution of increasing burdens instead of increasing wealth.

This situation could not be managed in the long run by the social partners. The trade unions’ prestige was rather low in Hungary – as well as in Poland and in the Czech Republic and the other countries – and if they could not achieve results in those issues which were really important for their membership – real earnings, social benefits, taxation, employment – they risked losing entirely their credit and support, before they could recoup them.

This “trap” became obvious in Hungary in 1995, when the trade unions tacitly supporting or at least tolerating the macro economic stabilisation measures of the Socialist-Liberal Horn Government were faced with their membership sharply protesting against these measures.

Nevertheless the opportunities for tripartite practices are not necessarily widened by the improvement of economic conditions.

If the government is not committed to social dialogue it can easily manage without talking to the trade unions and employers, as in the context of growing real earnings and improving social benefits workers would not take to the streets.¹³

¹² Casale, G. *ibid.* 7 p. It must added that the Liberal economic policies of Finance Minister Balczerowicz caused serious tensions in Solidarity and in the governing coalition too.

¹³ That is why the second Hungarian Conservative Government could afford the neglect of the tripartite structures in 1998-99.

It is often argued that freedom of association is a basic precondition to genuine social dialogue and that it prevails in the region. It does not however make the power position of the governments, unions and employers more balanced.

The existence of strong and united organisations of workers' and employers' representation is indispensable for successful tripartite practices.

3. Weak and divided trade unions

The social partners – primarily the employers' associations, but also the trade unions – are divided, weak and lacking in strong support from their constituency.

It is difficult to tell what is the actual strength of the workers' organisations in the region.

The earlier close to 100% artificial level of unionisation considerably decreased as the political constraint to belong to the unions ceased to exist and the material advantages of membership (subsidised holidays etc) eroded. The economic processes – the collapse and privatisation of big state-owned enterprises, the shrinking of industry's share in employment, the development of SMEs and self-employment, the spread of atypical work, contract work and illegal employment – did not favour the trade unions.

Unionisation however remained imposingly high, if compared with other European countries. In the middle of the 1990s it was reported to be about 40% in Hungary and Poland and even higher in the Czech Republic. Our concern is that it is not known whether and what proportion of this membership actually contributes to the efforts of the unions (by its activities or at least by paying a membership fee).

The disintegration and fragmentation of the early 1990s – although the situation is far from being ideal – seem to have come to an end and there are certain positive signs of integration or at least cooperation, despite the historical divisions, which have survived.

In Hungary the year 2000 witnessed new efforts on the part of the (earlier much divided) six trade union confederations to work out a common policy platform and to cooperate more closely, though maintaining their organisational independence. In Bulgaria KNSB (Confederation of Independent Trade Unions of Bulgaria) and Podkrepa CL, which had been sharply opposed to each other in the early 1990s, developed more friendly contacts, although they had strained relations with the emerging new unions. Even in Romania “there is a growing awareness that the multiplicity of trade unions increases their division and weakens the power of trade unions as a whole.” By the end of the 1990s – for the first time since 1990 – the four largest Romanian trade union confederations, CNSLR-Fratia, Cartel Alfa, BNS and CSDR, “agreed upon a common list of goals and a schedule of future trade union actions to accelerate social and economic reforms.”¹⁴

¹⁴ Mihes, C. and Casale, G. Ibid. p. 275. CNSLR (National Free Trade Union Confederation of Romania) -Fratia claims to have 2.1 million members, Cartal Alfa 1.1 million members, BNS (National Trade Union Bloc) 750,000 members, and CSDR (Confederation of Democratic Trade Unions of Romania) – which split from the CNSLR under the leadership of Victor Ciorbea, a former Prime Minister of Romania – 600,000 members. “The membership figures listed (provided by trade union officials) would mean that there is a unionisation rate in Romania of over 76.8%”, it was commented.

At the same time in Poland the division and antagonism between the two large confederations, OPZZ and Solidarity, arrived at a new stage after the victory of the Solidarity-organised right wing parties in the 1997 elections.

We have limited information as to the actual capability of trade unions to exercise pressure, to mobilise their membership for strike action.

Significant strikes took place in the years after the political change in Poland, Bulgaria and Romania. Hungary and the Czech and Slovak Republics were much more peaceful.

In Hungary the annual number of strikes since the Strike Act of 1989 has been 15-20 with the participation of very few people and usually lasting for a couple of hours (warning strikes). An exception is the Hungarian State Railways, where primarily wage demands were supported by industrial action in 1995, 1999 and 2000, lasting for several days and involving tens of thousands of workers.

In the early 1990s trade union demands in the tripartite council were accompanied by threats of general strike, but they had come to an end by 1992.

Some demonstrations were also organised by public service unions in 1995 and 1999. In general, public utility workers and unions – in public transport, electricity supply etc. – seem to be in a position to exercise pressure, because of their key position for the functioning of society and the national economy.

Tripartite practices – even if they yielded certain benefits for the workers – were not much followed or appreciated by them. The “less worse” is far from being “good” and is difficult to get across.

It can be attributed also to the trade unions' weakness, that transformation – and relatively advanced tripartite practices – have yielded only limited results for workers even in the economically most successful Central and Eastern European countries: in Hungary, the Czech Republic or Poland. Wage levels have remained depressed, improvements in working conditions have been lacking, workers' legal protection has been weak and the law often has not been implemented.

These days, in addition to the ILO, a great number of international organisations – ICFTU (the International Confederation of Free Trade Unions), ETUC (European Trade Union Confederation), IOE (International Organization of Employers) etc – are trying to promote the capacity building of trade unions and employers to which they are already institutionally linked.

4. Employers in search of their identity

In the absence of a strong market economy based on private ownership there exist few genuine employers.

In this respect in our time there is a sharp dividing line in the region. In most of Central and Eastern Europe still old socialist enterprise managers linger on, calling themselves employers and often behaving in a way which would cause real shock to their counterparts in the

Western industrialized market economies.¹⁵ In contrast, in the few advanced countries where privatisation has been (mostly) completed and there is a significant presence of foreign direct investments (FDI), a new class of employers has appeared on the scene, including a great number of multinational companies (Hungary, the Czech Republic, Poland, Slovenia).

The problems of employers' organisations are manifold.

First, they are highly pluralized and divided. Most of the countries in the region have several employers' associations of very much differing natures.

In the Czech Republic there exist two important employers' associations (represented also in the tripartite bodies): the Confederation of Employers' and Entrepreneurs' Associations CR and the Confederation of Industry and Transport CR (which has been accepted as a member by both IOE and UNICE); in Bulgaria four employers' associations have qualified as representative (the Association of Bulgarian Employers' Organizations, the Bulgarian Chamber of Commerce and Industry, the Bulgarian Industrial Association and the Union of Private Economic Enterprise), in Romania there were a great number of employers' organisations in the 1990s going through complicated procedures of fusion and separation (in 1995 Patronul Roman became a member of IOE); in Slovakia – for a refreshing change – there is one dominant organisation: the Association of Employers' Unions of the Slovak Republic (AZZZ SR). Some of these organisations claim to be the successors of historical predecessors, i.e. employers' associations established in the earlier capitalist period of these countries before World War II, such as UGIR-1903 (General Industrial Union-1903) in Romania, BIA (the Bulgarian Industrial Association) or MGYOSZ (Hungarian Manufacturers' National Association).

Second, it is difficult to tell to what extent the great number of associations the business organisations or entrepreneurs have in most countries of the region, which claim to be employers' organisations, meet the criteria for such organisations.

In the present stage of economic transformation and of employers' self-organisation the group of employers united by their associations is very often extremely heterogeneous: they include all those who define themselves as employers and are accepted by their partners as employers, although they may not meet the classical market economy definition. In Hungary for example, as we have seen, the organisations of mostly self-employed craftsmen and retail traders, of agricultural, industrial and consumer cooperatives etc. are listed as employers' associations too.

Third, employers are much less organised than workers. They have very limited resources to rely on and limited mandate – if any – to negotiate and conclude agreements on behalf of their constituency.

The weakness of the organisation of the employers is a serious obstacle to the development of sector (branch) and regional collective bargaining too.

¹⁵ To give an extreme example: in Kosovo there exists a Chamber of Commerce – considering itself an employers' association – which has at least as social-minded an approach to workers' protection and labour law as BSPK (Independent Trade Unions of Kosovo).

It was a bizarre indicator of the difficulties of self-organisation for employers in the early 1990s that in some countries – e.g. in Bulgaria – trade unions (!) tried to assist organisation by the employers so as to have a counterpart in the emerging tripartite structures.

Fourth, new genuine employers (e.g. multinationals) could not be integrated properly into the tripartite structures, which obviously weakens the structures' positions and the absence of important genuine employers calls in question their credibility and the justification for their existence.

Foreign investors, including multinational companies, are often blamed – as well as the international financial organisations, the IMF and the World Bank – for the depressed level of wages and for the lack of improvement in the legal protection of workers in the region.

Giuseppe Casale of the ILO writes: “In countries like the Czech Republic, Estonia, Hungary, Poland, Slovenia and Slovakia attracting foreign investors has been considered more important than ensuring higher wages or better working conditions.... It should also be noted that national labour law ... is not always implemented in day-to-day practice. The influence of foreign investors ... has limited governments' ability to improve the social welfare of the population at large.... Indeed, most countries in Central and Eastern Europe are in the process of enacting legislation in accordance with European Commission requirements, but it is questionable whether these laws will be actually implemented if they conflict with domestic needs and realities.”¹⁶

I think it is basically mistaken to attribute these problems to the influence of “foreign investors”.

Their investments are badly needed by the Central and Eastern European economies, as they provide foreign capital – in the absence of substantial national capital – for economic restructuring, for developing competitive production and exports as well as for sustainable economic growth. In addition they bring in high technology and up-to-date management methods and culture. They are attracted not only by low-level wage costs and legal protection of workers, but also by qualified and disciplined local labour, by relatively good infrastructure, political stability etc.

In Hungary's experience multinational companies belong to the most civilised employers and the evasion of labour law and violations of workers' and unions' rights can rather be associated with “predator capital”, whether it be foreign or national.

Labour law is about not only workers' legal protection, but also about labour costs. Although labour law adopted after the political change in the Central and Eastern European countries is less generous to the workers than past labour legislation in the Communist era – as to protection and benefits – it has often been still too costly to be financed either by the employers in economic crisis situations or by the state as the major direct or indirect employer in public services. It is economic growth and prosperity which will create the financial foundation for higher level legal protection of workers too.¹⁷

¹⁶ Casale, G. (Ed.) *ibid.* p. 2-3

¹⁷ In Kosovo, when the new essential labour law was prepared in 2000, it was difficult to convince local experts and trade unions, that provisions provided for the workers (e.g. severance payment, maternity leave etc.) were

Fourth, while trade unions' representativeness was tested, in one way or another, we have practically no reliable information as to that of the employers' associations.

The weakness of employers' associations impedes their effective image in their international contacts too.

In some countries where employers' associations were highly pluralized – in Poland and Hungary – “umbrella organisations” were established, among other things for the international representation of the employers (in the ILO, or recently in the European Union).

Tripartite practices have promoted the leaders of national trade union confederations and employers' associations – whether they admit it or not – de facto to the ranks of national political actors.¹⁸

This has had a double impact.

Firstly, their attention, interests, energies – and the limited capacities of their organisations – have become concentrated on national level public policy formulation and legislation, which has had its dividends in the acknowledgement of their legitimacy and for the interests of their constituents. The publicity from such exercises was an added attraction.

Secondly, they very often could not focus properly on effective work in the field of their own mission – i.e. to represent the interests of their constituents in their bilateral relations – at enterprise branch and regional levels (which offers an explanation for the decline in collective bargaining), on the reinforcement of their membership, on the reconstruction of their own organisation, on raising funds etc.

This weakness mostly remained invisible as long as “social dialogue friendly” governments were in office, but proved to be fatal when the administration taking office was hostile to that.

If faced with united and strong workers' and employers' organisations Conservative or Liberal Governments could not have allowed themselves the luxury of neglecting and ignoring their social partners and the institutions of social dialogue as they did in certain periods even in countries like the Czech Republic, Poland or Hungary.

In 1999 in Hungary, for example, the new Conservative Government did de facto put an end to national social dialogue, without meeting with any remarkable resistance on either the unions' or the employers' side. The latter simply looked disappointed and limited themselves to making some cautious critical comments in the press¹⁹ (Chapter VIII).

not simply a matter of legislation, but also of financing and in a crisis situation the generous provisions of the labour law of the past Communist Yugoslavia could not be maintained, i.e. financed.

¹⁸ The participants of the tripartite structures usually underline the “non-political” nature of the exercise. It is implied that party politics have no place in these institutions, i.e. no participants are allowed to represent party policies. Nonetheless, it is obvious that tripartite councils are part of the national systems of political institutions, having their role in public policy formulation.

¹⁹ In fact it was the Economic and Social Council of the European Union which called upon the Hungarian Government to restore social dialogue in March 2000.

5. Dilemmas about membership support

Representativeness has remained a mostly non-clarified and non-regulated issue all over the region, casting doubts on the credibility of the institutions and its participants, providing grounds for internal quarrels within the ranks of social partners, adding to their division and opening up wide possibilities for governments to follow their own preferences with whom to negotiate or not to negotiate.

In most Central and Eastern European countries no formal criteria have been specified. In Poland in the Tripartite Commission for Social and Economic Affairs “the only criterion applied thus far has been the historical one of being signatory to the Pact on State-owned Enterprises in the Process of Transformation.”²⁰ In the Czech Council of Economic and Social Agreement seats in the workers’ negotiating group simply were divided between CMKOS (the Czech-Moravian Chamber of Trade Unions) – accepted as the predominant union confederation – and the small KUK (Confederation of Art and Culture)²¹.

Efforts to set up criteria by legislation – for example in Bulgaria, Croatia and Slovakia²² – have contributed to the clarification of the situation, but at the same time often provided opportunity and legitimacy for political manipulations by the governments.

In Bulgaria workers and employers organisations that have been recognised as representative – on the basis of the provisions of the 1993 Labour Code – may participate in tripartite cooperation.

The Council of Ministers determines representativeness on the basis of membership and sectoral coverage requirements, as follows: a) 50,000 individual members are necessary for a workers’ organisation or 500 member firms for an employers’ organisation; and b) a workers’ organisation must cover half the sectors of the national economy and have a minimum of 50 grassroots organisations with at least five members each, while employers’ organisations must have structures in more than one sector with each sectoral structure uniting at least 50 employers. In addition these interest representation organisations, if they wish to participate in the National Council for Tripartite Partnership, should meet also certain additional requirements as to their local structures – as set by a Council Ministers Decree of 1993. A representative workers’ organisation should have local bodies in no less than 80% of the ex-district cities in the country, and at least 50 trade union organisations with five or more members at enterprise level on the territory of each respective ex-district. A representative employers’ organisation, meanwhile, should have local bodies in no less than half of the ex-district cities in the country, and each local structure should consist of no less than 10 employers.²³

²⁰ Sobotka, *ibid.* p. 266

²¹ CMKOS (the Czech-Moravian Chamber of Trade Unions) is reported to have 1,346 million members, while no data are available for other confederations. CMKOS had 6 seats and KUK had 1 seat. Kubinkova, M.: *Tripartism and Industrial Relations in the Czech Republic*. In: Casale, G. (Ed.) *ibid.* p. 118 and 128.

²² In Croatia the relevant law was passed amidst “heated discussions”. It prescribed – among other things – 15,000 paying members as a minimum criterion for a trade union confederation to qualify as representative at national level. Lisicar, D.: *Tripartism and Industrial Relations in Croatia*. *Ibid.* In Slovakia the 1999 Law on Economic and Social Partnership set up such criteria.

²³ Dimitrova, D.: *Tripartism and Industrial Relations in Bulgaria*. In Casale, G. *ibid.* p. 74. For earlier developments in Bulgaria see: ILO-CEET: *The Bulgarian Challenge: Reforming Labour Market and Social Policy*. International Labour Office, Budapest, 1994.

While according to experts in Bulgaria only two trade union confederations – the Confederation of Independent Trade Unions in Bulgaria (KNSB) and Podkrepa Confederation of Labour (Podkrepa CL) – met the requirements set by law in 1993, four further trade union confederations were recognised by the government in 1995-97 as representative.

“As a result of the ‘divide-and-rule’ policy of the Socialist Party government, there is now a division among trade unions, as certain of them claim to be ‘authentic’ organisations, while claiming that certain others are ‘non-authentic’. The government has been accused of granting recognition to certain trade unions in exchange for political favours.”²⁴

6. Political and ideological antagonism

For successful tripartism a precondition is a certain level of agreement by the partners as to the political philosophies concerning governance, labour relations and the guidance of the economy.

This does not have a place in the neo-liberal philosophies which prevailed in Poland and in Czechoslovakia in the first half of the 1990s, while it could well fit into interventionist approaches aimed at a social market economy. In Hungary the Antall Government (reviving the IRC) and in Poland Labour Minister Kuron (initiating the State Enterprise Pact) had a social market economy approach. Socialist or Social Democrat governance, for similar reasons, also provides a favourable atmosphere for tripartite practices, as it did in both countries. Tripartism, despite all economic difficulties, had its most successful period in Hungary in 1996-98 in the term of the Socialist-Liberal Horn Government.

Pragmatism in most cases helps to overcome differences in political and ideological values. Still there is a constant danger that tripartite practices may be upset or “gutted” as a result of political and ideological antagonism between the mostly left wing trade unions – with tacit or open affiliations to the Socialist or Social Democrat parties of the region – and the right wing Conservative governments.

In Poland the successful functioning of the Tripartite Commission for Socio-Economic Issues in 1995-96 was disturbed by political developments. In 1997, for political reasons related to the imminent parliamentary elections, Solidarity withdrew its support for the wage agreements negotiated by the Commission, which meant that wage growth was determined by the government. In 1998 a similar approach was taken by OPZZ and again no wage agreement was achieved. Additionally, towards the end of 1998, OPZZ suspended its participation in the Commission, which effectively blocked any further work.²⁵

In Czechoslovakia the Council for Social and Economic Agreement – after a promising two years of work – came under increasing pressure following the 1992 election victory of the Vaclav Klaus led Conservative political forces. The government used its constitutional right to override the General Agreement, including the renewal of strict wage regulations against the joint wishes of the trade unions and most employers. The 1994 General Agreement was the last one signed, and after it the parties failed to agree and the intervals between the sittings of the tripartite body became longer and longer. By 1995 it became clear that the government was becoming increasingly keen to dismantle the tripartite structure and to withdraw from it.

²⁴ Dimitrova, D. *ibid.* 77.

²⁵ (Hausner, J. – Kukielka, M.): Poland – Industrial Relations Background. *European Industrial Relations Review*, London, No 307. Aug. 1999, p. 25-26.

“The change occurred with the results of the parliamentary elections in 1992, which brought to power right-wing parties that promoted liberal and conservative policies. In a situation where the results of economic transformation were highly praised abroad, the government (and particularly the strongest political party) faced no real challenge. The opposition was relatively weak and divided and all this contributed to a situation where the government opted for an authoritarian style of decision-making and began to disregard the views of the social partners. Communication between the government and the social partners worsened and serious problems emerged in the RHSD (Council of Economic and Social Agreement). They became very acute in 1994 in connection with proposed reforms of the social security system, which the government refused to discuss with the trade unions. A real crisis thus emerged in the operation of tripartite dialogue. For more than six months social dialogue practically ceased to exist. Thereafter, tedious negotiations began again between the social partners and the government on whether or not to resume dialogue, the role of which was completely underestimated by the government.”²⁶

Nevertheless in Autumn 1997, after the government had been faced with deepening economic crisis and strike threats because of real wage drops, tripartism was reinstated: a new Council for Economic and Social Accord was established.²⁷

In Central and Eastern Europe the three parties’ relationships – as well as the internal relations of both unions and employers – have often been burdened by political and ideological antagonism. If this were not so, the fortunes of tripartite practices would not have shown the strong fluctuations they did even in such countries as the Czech Republic, Hungary or Poland.

In Hungary, the second Conservative government taking office in Summer 1998 has taken a series of measures which have resulted in the degradation of the role of the tripartite structures, as discussed earlier. (Chapter VIII.)

7. Past success and new challenges

Despite all their difficulties and weaknesses tripartite practices have contributed to the maintenance of social peace in very critical periods.

Their mission as formulated by Elzbieta Sobotka was seen as follows: “The building of a new social order in Poland based on the principles of social dialogue and partnership creates an opportunity to gain public acceptance for the costly and painful transformation process, which has entailed both high unemployment and a decrease in the standard of living. Social dialogue constitutes the fundamental axis of the new systems of collective labour relations. The system reflects the interrelationship between the employee, the employer and the state. In some areas, the role of the state is reduced and relations are primarily bilateral (such as in the negotiation and conclusion of collective agreements). Other issues remain, however, which cannot be solved without the involvement of the three parties – workers and employers (represented by their organisations), and the state. The dialogue between social partners cannot replace the government and the parliament in the state’s decision-making process. It rather facilitates the

²⁶ Kubinkova, M. Ibid. In: Casale, G. (Ed.) *ibid.* p. 129.

²⁷ (Pollert, A.): *The Czech Republic – Industrial Relations Background*. European Industrial Relations Review. London, No 296. Sept. 1998. p. 20-21.

search for a practical consensus and balanced decision-making, thus enhancing the chance that decisions will gain public support.”²⁸

In fact tripartite practices had accomplished this primary mission (Chapter I), but the mechanism by which they made their positive impact felt did not necessarily correspond to the above ideas.

It is doubtful that they could provide the “public acceptance for the transformation process” to which politicians like to refer. They rather offered education in market economics and economic policies for labour relations actors – both workers and employers – and kept them at the negotiating table in critical periods, when they – primarily the trade union leaders – often were at the head of masses of disappointed and desperate people. In other words, tripartite talks tended to neutralise potential “troublemakers”. They offered an alternative to strikes and street demonstrations and functioned as a “safety valve” to let off steam. Nevertheless, trade unions supporting reforms suffered losses in their support and the disappointed masses of citizens – the majority of whom were workers – later on voted out of power those governments which had resorted to restrictive economic measures (as happened in Poland in 1997 and in Hungary in 1998).

It was probably not by blind chance however that in Romania – where the institutions of social dialogue were missing for most of the 1990s – the miners marched to Bucharest with sticks to break and loot. By contrast in Hungary only a couple of insignificant mining strikes occurred, while mines were closed down one after the other and the number of their once highly privileged staff was reduced to a fraction.

Tripartite practices have been developed all over Central and Eastern Europe as a kind of “emergency” reaction to growing social tensions, to the possible danger of a “social explosion”, their two major actors being the governments – resorting to unavoidable unpopular economic policy measures – and the trade unions – representing those masses of society which had to suffer the consequences of these measures. This set-up also determined the contents of the deals struck: the governments provided some compromises and were given a free hand to go ahead, while the trade unions accepted or at least tolerated what was going on.

As national economies began to recover, and sustainable economic growth and the improvement of living standards restarted in some countries – for example in Hungary and Poland – in the second half of the 1990s the situation dramatically changed. The earlier invaluable dividend from the workers’ organisations – their acceptance or tolerance of governmental policies – became sharply depreciated as the risks of open nationwide conflicts related to economic adjustment came to an end or at least very much decreased. What was a very good deal for the governments a couple of years before, in the new context appeared to be a burden: they remained faced with trade union demands, for meeting which they no longer received compensation.²⁹

²⁸ Elzbieta Sobotka was Under-Secretary of State, Polish Ministry of Labour and Social Policy. Sobotka, *ibid.* p. 264.

²⁹ This new situation is well illustrated by the example of Hungary, where it was realized in 1997/98 that national wage agreements contained obligations only for the government and no obligations for either the national trade union confederations or the employers’ associations. (Chapter IV)

Some – Conservative or Liberal – governments feel that tripartite exercises are not really needed any more, and the social partners – unions and employers – feel powerless, when faced with this (overt or tacit) message. At the same time unions – and employers – still look upon the government as their major partner to negotiate with.

The tripartite structures and the actors in them have proved to be unprepared to deal successfully with the new situation as yet. It is true that if tripartite social dialogue is to survive and to function effectively in the future, its mission, the roles, rights and obligations of its participants should be reconsidered and rewritten by those primarily concerned, i.e. by the governments, unions and employers.

In the new context the mission of social dialogue is basically determined by the accession of the Central and Eastern European countries to the European Union:

firstly, the process itself can be managed successfully if based on a close cooperation of national governments, workers' organisations and employers' associations;

secondly, joint scenarios are needed aimed at the reduction of the tremendous gap between wages, working conditions and workers' protection in the region and the European Union.

Conditions for this are being created by the sustainable growth which has already started in a couple of countries. For Hungary e.g. its present level of economic development (GDP/capita) seems to allow for higher level wages than the existing ones.³⁰ There will probably be a steady growth in the business sector, as expected by the trade unions and the decision makers in the Commission of the European Union, to keep the dangers of the migration of labour and the further relocation of investments under better control. Nonetheless public service salary growth is dependent on the progress of reforms to increase cost effectiveness there – to be promoted by the government in agreement with those concerned;

finally, the countries of Central and Eastern Europe are already faced with problems for which the European Union is currently trying to find an answer.

What we are witnessing at the moment e.g. in Hungary and Poland – and most probably in other Central and Eastern European countries too – is a phenomenon which is popularly known by legal experts as “flexible employment”, and involves the employers' “escape from the burden of regulation.”

Generally speaking, the latter means that the classical employment relationship (based on labour law) is more and more often replaced by other legal arrangements (entrepreneurial contracts, assignment contracts etc. based on civil law), drastically reducing labour costs for the employer and legal and social protection for the workers.³¹ Their expansion – like that of the replacement of permanent work contracts by limited duration work contracts under labour law – is underpinned by the employers' natural and legitimate endeavour to make employment more flexible and to maintain and increase their competitiveness, by means which include the reduction of their labour costs in a liberalised world market. This is present on the part of the

³⁰ In Hungary in the mid 1990s average industrial earnings were one tenth of the average of the European Union, while GDP/capita was one third of the average of the European Union, calculated on the basis of purchasing power parity. (Data of the Ministry of Economy, 1999)

³¹ Héthy, L.: Workers' protection under the pressure of saving labour costs. Hungary. Human Strategies and Investments Consultants. Budapest, 1999. The paper was prepared for the ILO.

foreign investors and employers and also on the part of national ones. Governments (and trade unions) may march against this trend by making labour law more protective. Nonetheless, the obvious results to be expected are: less job creation, more evasion of labour law and further expansion of informal (illegal) employment.

Tripartite efforts in the future – in fact at the present day in several countries – will be made necessary by those challenges which are set by globalisation both in the field of maintaining and improving the competitiveness of national economies and in the security and protection of workers.

8. Requirements for a redefinition

Nonetheless, there are some general requirements, which seem to provide a context for the redefinition of the mission of tripartite exercises:

- a) only those structures of tripartite practices or social dialogue have a chance of survival – governments are likely to be motivated to the maintenance only of those structures – in which there is a fair and balanced distribution of obligations and rights;
- b) no effective tripartite practices or social dialogue can be continued without the social partners' gathering strength, relying on strong support from their constituencies and proving it in a visible and transparent way;
- c) national tripartite practices cannot work successfully without relying on a broad and strong foundation of collective labour relations – primarily on a system of collective bargaining and agreements – at “lower”, that is, branch, regional and enterprise levels;
- d) sooner or later most countries of the region have to meet the expectations of the European Union as to the maintenance of social dialogue.

Finally, one should not forget that for the moment very few countries – only the most successful ones – are faced with the dilemmas of how to reshape their tripartite practices to cope with the new challenges. For most of the region this exercise is still a school in market economics and labour relations and a “safety valve” for easing social tensions.

THE 1992 NOVEMBER IRC AGREEMENT AND ITS IMPLEMENTATION¹

1. EMPLOYMENT POLICY

Agreement: 1.1 “The Government is to prepare a general employment policy strategy – integrated into the context of economic policy and based on the responsibility of the Government as a whole – up to the end of February 1993... This strategy is to contain measures to be applied in extraordinary employment situations.”

Implementation: The Government did prepare its employment policy strategy and it was discussed by the IRC in its sitting of 23rd March 1993. Both workers and employers severely criticised it. In the workers’ view, “it did not make the government’s approach and priorities clear”, while the employers considered it “insufficient”. Both sides blamed it for a lack of coordination with sectoral policies (such as those for agriculture and industry) and for the absence of definite tasks to be performed, related resources, responsibilities and deadlines. Definite programmes were urged (primarily by the workers) for crisis management: to ease tensions of employment in the regions, in public services, among young people etc.²

The Government continued to work out and launch such definite programmes to ease unemployment in the course of 1993.

Agreement: 1.2. “The social partners underlined the importance of active employment policy. The Employment Fund (to finance this) is to dispose of over 18 billion HUF in 1993. Its sources are: 12 billion HUF from revenues of privatisation, 1.5 billion HUF from a transfer from the Solidarity Fund and 4.5 billion HUF as the expected residue from 1992.”

Implementation: The Act on the 1993 state budget did oblige the State Property Agency to transfer 12 billion HUF of the revenues from privatisation to the Employment Fund. In case revenues from privatisation failed to cover the expenses of the Fund provisional advance payments were to be provided for it from other state funds.³

Agreement: 1.3 “The Government is to prepare a quarterly report on the revenues and expenses of the Solidarity Fund for the social partners.”

Implementation: Such reports were prepared by the Ministry of Labour usually for half year periods.

¹ Tájékoztató az Érdekegyeztető Tanács 1992. november 20-21. üléséről. (Communiqué. The 20-21 November sitting of the IRC), Magyar Közlöny, Budapest, No 124/1992. 1st Dec. 1992. The parts of the “Agreement” referred to in quotation marks above come from this text.

² See: Tájékoztató az Érdekegyeztető Tanács 1993. március 23-i üléséről. (Communiqué. The 23rd March 1993 Sitting of the IRC) Magyar Közlöny, Budapest, No 32/1993. 15th April 1993. p. 2506-2507.

³ See: 1992., évi LXXX. törvény a Magyar Köztársaság 1993. évi költségvetéséről. Act No LXXX. of 1992. on the 1993 Budget of the Hungarian Republic.) Magyar Közlöny, Budapest, No 133/1992. 28th Dec. 1992. p. 4731.

Agreement: 1.4 The Employment Promotion Act is to be amended according to the agreement as below:

- Employers are to make a contribution to the Solidarity Fund amounting to 7% of their payroll, while the contribution by the employees is to be 2% of their gross earnings;
- Unemployment benefits are to be paid for (a maximum of) one year; their level is to be 75% in the first period (3 months) and 60% in the second period (9 months) of previous average earnings. (The minimum limits for both periods are 8600 HUF while the maximum limits are 18000 HUF in the first and 15000 HUF in the second period.) The increase in the guaranteed minimum wage does not involve an automatic growth of unemployment benefits, which are lower than the guaranteed minimum wage.

Implementation: The Act on the 1993 State Budget did amend the Employment Promotion Act according to the contents of the above agreement.⁴

2. TAXATION

Agreement: 2.1 As to the 1993 general turnover taxation: medicine and household electric energy consumption are to be exempt of taxation (to be taxed at a zero rate); turnover tax related to the construction, purchase or enlargement of apartments as well as to fitting apartments with public amenities is to be (partially) reimbursed: the ratio to be reimbursed is 60%, its maximum is 400,000 HUF for construction and purchases, 200,000 HUF for enlargement and 50,000 HUF for public amenities. The preferential rate of general turnover tax is to be fixed at 6%.

Implementation: The above agreement was implemented in the Act on the General Turnover Tax: a) it set a 0% rate for medicine and household electric energy consumption; b) it provided (partial) reimbursement of general turnover tax in the case of construction, purchase etc. of apartments; c) it fixed the preferential rate of general turnover tax at 6%.⁵

After half a year had passed, the Government initiated an amendment of the Act on the General Turnover Tax; to increase state revenues and to reduce budgetary deficits it increased the preferential tax rate from 6% to 10%; it moved household electric energy and medicine from under zero rate to the 10% rate of general turnover tax while – transitionally – maintaining the exemption from taxation of medicine until 31st December 1994.⁶

⁴ 1992. évi LXXX. törvény a Magyar Köztársaság 1993. évi költségvetéséről. (Act LXXX. of 1992 on the 1993 Budget of the Hungarian Republic.) Magyar Közlöny, Budapest, No 133/1992. P. 4743-44.

⁵ 1992. évi LXXIV. törvény az általános forgalmi adóról. (Act LXXIV. of 1992 on General Turnover Tax) Magyar Közlöny, Budapest, No 128/1992. 19th December 1992. The employers accepted the above agreement although they protested against the determination of the preferential tax rate at 6%, as in the earlier phases of the negotiations there had already been a mutual understanding to fix it at 5%, and afterwards the workers and the government did not support the demand of the employers to reduce their envisaged contribution to the Solidarity Fund by 0.5% in exchange. Tájékoztató az Érdekegyeztető Tanács 1992. november 21-22-i üléséről. (Communiqué. The 21-22. November 1992 Sitting of the IRC) Magyar Közlöny, Budapest, No 124/1992. p. 4371

⁶ 1993. évi LXXII. törvény a Magyar Köztársaság 1993. évi pótköltségvetéséről. (Act LXXII. On the 1993 Supplementary Budget of the Hungarian Republic.) Magyar Közlöny Budapest, No 97/1993, 19th June 1993.

The Government and the Parliament decided to offer a (partial) compensation to the population in the form of a lump sum payment in exchange for the growth in general turnover taxation. (This amounted to 1000 and 1500 HUF for employees with maximum 15,000 and 10,000 HUF gross monthly earnings respectively.)⁷

The IRC refused to support the Government's initiative for the Supplementary Budget and described the related growth in general turnover tax as "unacceptable" as it "contradicted the 1992 November Agreement, it blocked the way for general supervision and modification of the system of taxation while imposing further burdens on the population, to be only partially compensated." The IRC declared that such an action was the sole responsibility of the Government.⁸

Agreement: 2.2 In the field of personal income taxation 1) family allowances remain exempt of taxation 2) tax reductions for children are to change: basic taxation cannot be reduced by 1300 HUF per child; instead the tax payer will be granted a direct tax reduction of 300 HUF per child 3) 200 HUF/employee tax reduction will be granted to all active employees. (Monthly figures)

Implementation: The new act on personal income taxation 1) maintained exemption of taxation for family allowances 2) introduced 300 HUF per child tax reduction (in the case of three or more children it amounted to 400 HUF per child) 3) granted 200 HUF/employee tax reduction to active employees. (Monthly figures)⁹

Agreement: 2.3 Exemptions of taxation on payments in kind are to be regulated as follows: a) free of charge meals (and related vouchers) for the employee up to the limit of (monthly) 1000 HUF b) free of charge transport for the employee and his/her family c) free of charge holidays paid for by the National Recreation Foundation or the employer as well as d) other payments in kind (if not substituted by cash payment) are to be exempt of taxation.

Implementation: The new act on personal income taxation maintained exemption of taxation for meals at the workplace (up to 1000 HUF), for working clothes and vouchers, for transport of the employee (or his/her family), for holiday costs covered by the National Recreation Foundation and for other payments in kind (if not substituted by payment in cash).¹⁰

1993. évi LXX. törvény az általános forgalmi adóról szóló törvény módosításáról. (3. és 115. paragrafusok) (Act LXX. Of 1993. On the amendment of the act on general turnover tax. Paragraphs 3 and 115.) Magyar Közlöny, Budapest, No 95/1993. 16th July 1993. p. 5234-35.

⁷ For the details see: Az Országgyűlés 60/1993. (VII.16.) OGY határozata, és a Kormány 111/1993. (VIII. 3.) Kormányrendelete az általános forgalmi adó 1993. augusztus 1-jei emelésével összefüggő egyidejű lakossági kompenzálásról. (Decrees No 60/1993 of the Parliament and No 111/1993 of the Government about the compensation of the population for the general turnover tax growth coming into force on 1st August 1993). Társadalombiztosítási Közlöny, Budapest, XXX. évf. 7.sz. (Vol 30 No 7.) July 1993. p. 203-209.

⁸ Tájékoztató az Érdekegyeztető Tanács 1993. június 30-i üléséről. (Communiqué. The 30th June 1993 Sitting of the IRC), Magyar Közlöny, Budapest, No 94/1993. 14th July 1993. p. 5030.

⁹ Az 1992. évi LXXV. Törvény a magánszemélyek jövedelemadójáról. (Act LXXV. On Personal Income Taxation) Magyar Közlöny, Budapest, No 129/1992. 20th December 1992. Adó-kódex. 11th December 1992. p. 9, 16.

¹⁰ Adó-Kódex. Ibid. p. 8-9.

3. WAGES

Agreement: 3.1 The guaranteed minimum wage is to be fixed at (monthly) 9000 HUF by 1st February 1993; it is to be obligatory for cooperatives of industry and services by 1st August 1993, for agriculture, wild game farming, forestry and fishing by 1st December 1993. Its gradual raising in the agrarian sector is to be settled by further agreements of those concerned.

Implementation: The Government issued a decree in January 1993 raising the guaranteed minimum wage to the level negotiated.¹¹

Agreement: 3.2 Wage regulations set for 1992 are not to be applied, but the IRC's recommendation as to the maximum limit of enterprise level wage growth (28%) for the year 1992 is maintained. It is considered to be superfluous to issue governmental wage regulations for 1993. The IRC is to formulate its own recommendations by mid-December, however, as to average wage growth at the level of enterprises, occupations and sectors.

Implementation: Wage regulation by the government arrived at an end. It was for the first time for several decades that the government did not issue any wage regulations for 1993.

The IRC could not arrive at an agreement on its recommendations for wage growth in 1993 in its 15th January 1993 sitting. The workers, the employers and the government adopted different views as to the possible consequences of consumer price increases at the beginning of the year for living costs.¹²

An IRC agreement was concluded, however, in the following sitting on the 12th February 1993, as follows:

- In the competitive sphere 18% average growth of gross earnings was envisaged taking into account the 14-17% growth in consumer prices forecast by the government;
- Employers, in unfavourable conditions, were to endeavour to achieve 10-13% minimum growth in gross average earnings (i.e. to fix such a growth rate in wage agreements);
- Employers, in favourable conditions, were not to go beyond 25% maximum growth of gross average earnings (i.e. not to fix higher growth rates in their wage agreements).

The workers and employers maintained divergent views as to minimum growth of gross earnings within the limits of 10-13%.¹³

¹¹ A kormány 1/1993. (I.13.) Kormányrendelete a kötelező legkisebb munkabér (minimálbér) megállapításáról. (The Government's Decree No 1 of 1993 on the guaranteed minimum wage), Magyar Közlöny, Budapest, No 3/1993. 13th January 1993.

¹² The workers' negotiating group suggested that an ad hoc committee be given the task of assessing the possible consequences of the January consumer price increases for living costs as in the absence of such knowledge they were not in a position to enter meaningful negotiations as to the minima suggested, and proposed to postpone the talks until the beginning of February. In the employers' and government's views the consequences of the price increases could not be assessed in a short time period but it was thought that they would not modify significantly the inflation rate as forecast nor other macro economic conditions; talks on the issue were postponed. See: Tájékoztató az Érdekegyeztető Tanács 1993. január 15-i üléséről. (Communiqué. The 15th January 1993 Sitting of the IRC). Magyar Közlöny, Budapest, No 11/1993. 2nd February 1993. p. 45.

¹³ The workers' side looked upon 13% as the recommended minimum level, while three organisations of the employers' side (MGYOSZ, Magyar Iparszövetség, VOSZ) thought that 10% would be reasonable, taking into

The IRC also adopted a recommendation as to wage minima related to intersectoral job categories to guide enterprise level negotiations on wage scales.

Implementation: The recommendations by the IRC were to appear firstly in negotiated wage growth in the collective agreements concluded in the competitive sphere for 1993, secondly in the actual growth of gross earnings in the course of the year. Although information at our disposal is insufficient and limited, it provides grounds for the following remarks:

1) In the first half of 1993, 380 enterprise level collective agreements were in force covering about 580,000 employees: those under collective contracts amounted to 35% of manufacturing employees; this ratio was higher in branches dominated by bigger enterprises, e.g. 70% in transport, telecommunication and postal services. 60% of collective agreements (in terms of the number of enterprises) contained provisions for the growth of average earnings and 80% for the growth of basic wages: they averaged about 17% and 16% respectively, staying somewhat below the level of 18% recommended by the IRC.¹⁴

2) In January-December 1993, according to reports of the Central Statistical Office on enterprises with more than 20 employees, the growth of gross average earnings amounted to 25.6% and that of net average earnings to 20.6% which – taking into account the increase in consumer prices – meant a slight decline of 1.6% in real earnings for the year. The actual nominal growth of earnings thus went beyond the maximum as recommended by the IRC, but consumer prices also achieved a higher rate of growth than forecast.¹⁵ The final result more or less corresponded to the recommendations by the IRC (with the exception that a slight growth in real earnings was replaced by a slight decline.)

Agreement: 3.2 An expert proposal is to be prepared on how to take care of justified demands for wages and severance payment by workers of bankrupt enterprises, for the plenary session of the IRC ending on 4th February 1994.

Implementation: The proposal was prepared – with considerable delay.

4. SOCIAL POLICIES AND BENEFITS

Agreement: 4.1 Retirement (pension) age is not to be extended in 1993 and 1994, to allow due notice to the generations concerned; the government announces now in advance that the retirement age for women is to be increased by one year in each two year period starting on 1st January 1995, in such a way that the additional possibility of retirement before the increased retirement age is also provided for under specific conditions. These conditions should be determined in negotiations with the (future) pension insurance self-government.

account the situation of business organisations at a low level profitability. See: Tájékoztató az Érdekegyeztető Tanács 1993. február 12-i üléséről. (Communiqué. The 12th February 1993 Sitting of the IRC) Magyar Közlöny, Budapest, No 33/1993. 24th March 1993. p. 1867.

¹⁴ Tájékoztató a keresetalakulásról és a kollektív megállapodások jellemzőiről. 1993. I. félévi adatok. (Earnings and collective agreements. Data for the first half of 1993.) Munkaügyi Minisztérium (Ministry of Labour), Budapest, Sept. 1993.

¹⁵ A keresetek alakulása 1993. december hónapjában és 1993. január-december hónapjaiban. (Earnings in December 1993 and in January-December 1993) Statisztikai Füzetek, KSH, Budapest, 1994. (The survey did not cover agriculture, fishing and public services.)

Entitlement to a partial pension on the basis of minimum years of service is limited to 15 years after 1st July 1993.

In 1993 there will be an average 14% growth of pensions.

Implementation: Legislation postponed the extension of retirement age to 1st January 1995 and regulated the gradual extension of the retirement age for women as well as the minimum years of service for obtaining a partial pension according to the IRC agreement. As to the average growth of pensions in 1993 the Parliament corrected “downward” the provisions of the IRC Agreement. It opened up the way for a 10% increase by 1st March 1993 and for another 4% increase by 1st September 1993. This growth achieved in two stages did not amount to the 14% annual average agreed upon but stayed somewhat below 10%.¹⁶

Agreement: 4.4 “Family allowance per child is to be increased by a monthly 150 HUF”.

Implementation: Family allowance was raised as prescribed by the IRC.¹⁷

Agreement: 4.5 Unemployed people, after the expiry of their unemployment benefits, are to be taken care of according to the draft act on social administration and social benefits.

Implementation: The act passed by the parliament took care of the unemployed referred to according to the provisions of the IRC Agreement.¹⁸

An agreement was arrived at in the IRC, in relation to the Act on Higher Education under preparation, that obligatory tuition fees to be introduced would be compensated for by a system of scholarships and credits to be worked out in further negotiations.

The issue was on the agenda once again in the 5th March 1993 sitting of the IRC, which engaged in discussion of the draft legislation on public education, vocational training and higher education.

The workers’ side made objections to the draft legislation on several points e.g. to the envisaged employment of university lecturers and researchers on the basis of limited term work contracts.¹⁹

¹⁶ See, 1993 évi VIII. törvény a társadalombiztosításról. 11. paragrafus. (Act VIII. of 1993 on Social Security Insurance paragraph 11.) Társadalombiztosítási Közlöny, Budapest, Vol. 30. No 3., March 1993. p. 67. Az Országgyűlés 7/1993. (III. 27.) OGY határozata a nyugellátások, baleseti nyugellátások, és egyéb ellátások emeléséről és kiegészítéséről. (The Parliament’s No 7/1993 Decree on the Increase of Pension etc.) Társadalombiztosítási Közlöny, Budapest, Vol 30. No 3 March 1993 p. 105-106.

¹⁷ See: 1993. évi V. törvény a családi pótlékról... (Act V. of 1993 on Family Allowance) Társadalombiztosítási Közlöny, Budapest, Vol. 30. No 2. february 1993, p. 39. and 1992. évi LCI. Törvény a családi pótlékról... (Act LVI of 1992 on Family Allowance...) Társadalombiztosítási Közlöny, Budapest, Vol 29. No 10. Oct. 1992.

¹⁸ 1993. Évi III. törvény a szociális igazgatásról és szociális ellátásról. (Act III. of 1993 on Social Administration and Social Benefits), Magyar Közlöny, Budapest, No 8/1993. 27th January 1993. (paragraphs 33-37, p. 350-351.

¹⁹ Tájékoztató az Érdekegyeztető Tanács 1993. március 5-i üléséről. (Communiqué. The 5th March 1993 Sitting of the IRC), Magyar Közlöny, Budapest, No 33/1993. 24th March 1993. p. 1870.

5. WAGES IN PUBLIC SERVICES

Agreement: 5.1 10 billion HUF are earmarked for a differentiated wage increase in public services by 1st May 1993; employees in defence, justice and higher education are excluded from the increase; employees in public education, vocational training, health services, arts and public collections as well as of institutions of public education and research are to be granted exceptional wage growth; the ratio of wage increases in local state administration may amount to 2/3 and that in other institutions to 1/3 of the exceptional wage growth referred to above. Specific rates for branches are to be fixed by the Interest Reconciliation Council of Budgetary Institutions (IRCB).

Implementation: 10 billion HUF was earmarked for wage increases in public services. In Spring 1993 sharp discussions took place in the IRCBI as to its distribution...

6. RELATIONSHIP BETWEEN THE GOVERNMENT AND TRADE UNIONS²⁰

Agreement: 6.1 The Government, taking into account the 10th September 1992 Agreement among six trade union confederations, is to withdraw its draft law on trade union elections and on the redistribution of trade union assets. 6.2 The Government is to submit a draft law to Parliament by 30th November 1992 on social insurance self-government elections on the basis of which those national trade union confederations (and alliances) will be entitled to submit candidates which meet definite conditions of national representativeness.²¹ 6.3 The government and the trade unions are to arrive at an agreement by 10th December 1992 as to the contents of the draft law aimed at the amendment of Act XXVIII of 1991 (on trade union assets).

Implementation: The period for Social Insurance Self-Government elections was set to 7-21 May 1993; Works Council/public servants' council elections were to be held on the same day as the Social Insurance Self-Government elections or within one week and at the latest by 28 May.

Elections took place in the time period indicated.

Legislation set criteria according with the IRC Agreement for the representativeness of trade union confederations entitled to submit candidates for the Social Insurance Self Government elections.²²

²⁰ Solidarity refused to sign the 1992 November IRC Agreement as its point No 6 (on the relationship of the Government and trade unions) "subjected the whole of the IRC Agreement to the unclarified legal and political will of six trade union confederations." Tájékoztató az Érdekegyeztető Tanács 1992. november 20-21-i üléséről. (Communiqué. 20-21 November 1992 Sitting of the IRC). Magyar Közlöny, Budapest, No 124/1992. 11th Dec. 1992. p. 4371

²¹ Solidarity protested against the costs of Social Insurance Self-Government elections being covered by the social insurance funds, and thought it "unconstitutional" that legislation prescribed elections for workers' delegates while allowing delegation for employers' representatives. Tájékoztató az Érdekegyeztető Tanács 1993 február 25-i üléséről. (Communiqué. The 26th February 1993. Sitting of the IRC). Magyar Közlöny, Budapest, No 33/1993. 29th March 1992. p. 1869.

²² These criteria were taken over to the Standing Orders of the workers' negotiating group of the IRC. For details see Chapter VII.

As to the validity of these elections a certain disagreement occurred between the IRC and the Parliament. In the IRC an agreement was negotiated that these elections would be valid at a minimum 20% level of participation while the legislation raised this limit – a couple of days later – to 25%.²³

The Government and the Parliament proceeded with the modification of Act XXVIII of 1991 (on trade union assets) according to the IRC Agreement. This accepted the agreement of the six trade union confederations on the (partial) redistribution of trade union assets (signed on 10th September 1992) and decided to link the redistribution of further trade union assets with the results of the Works Council/Public Service Council elections of 1994.²⁴

7. GENERAL ISSUES OF THE NATIONAL ECONOMY

Agreement: The Government committed itself to submitting to the IRC before the end of February 1993 “general reports” on a) the reform of the state household and the major systems of redistribution b) the envisaged changes in the taxation system for 1994 c) the major targets of agricultural and industrial policies and d) its employment policy strategy. (See heading 1 above on employment policy)

Implementation: This provision of the IRC Agreement was only partly implemented. The Government prepared and submitted to the IRC its employment policy strategy. Nonetheless, the Economy Policy Forum of the IRC, planned for February 1993, was not convened, as the “Government had failed to prepare and submit... its reports on the reform of state household, taxation as well as agricultural policy...”²⁵

²³ Tájékoztató az Érdekegyeztető Tanács 1993. február 20-i üléséről. (Communiqué. The 20th February 1993 Sitting of the IRC). Magyar Közlöny, Budapest, No 33. 1993. 24th March 1993. p. 1868-69. 1993. évi XII. törvény a társadalombiztosítási képviselők 1993. évi választásáról. (Act XII. of 1993 on the Social Insurance Board Elections). Par. 36. Magyar Közlöny, Budapest, No 29/1993. 12th March 1993. p. 1544.

²⁴ 1993. Évi XIII. törvény a szakszervezeti vagyron védelméről... (Act XIII. of 1993 on the Protection of Trade Union Assets...) Magyar Közlöny, Budapest, No 29/1993. 12th March 1993. p. 1547-55.

²⁵ Tájékoztató az Érdekegyeztető Tanács 1993. június 30-i üléséről. (Communiqué. The 30th June 1993 Sitting of the IRC). Magyar Közlöny, Budapest, No 94/1993. 14th July 1993. p. 5030-31.

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